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SUBSTANTIVE ISSUES ARISING IN THE IMPLEMENTATION OF THE
INTERNATIONAL COVENANT ON ECONOMIC, SOCIAL AND CULTURAL RIGHTS:
POVERTY AND THE INTERNATIONAL COVENANT ON ECONOMIC, SOCIAL AND
CULTURAL RIGHTS

Statement adopted by the Committee on Economic, Social and Cultural Rights on 4 May 2001

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Dear Mr. Ricupero,

On behalf of the Committee on Economic, Social and Cultural Rights, I have the honour of transmitting to you the Statement on poverty adopted by the Committee on 4 May 2001, for submission to the Third UN Conference on the Least Developed Countries, to take place in Brussels from 14 to 20 May, 2001.

The statement aims to encourage the integration of human rights into poverty eradication policies by outlining how human rights generally, and the Covenant in particular, can empower the poor and enhance anti-poverty strategies.

I express the hope that the Conference will be successful, and that the Committee's Statement will contribute towards that goal.

Please accept the assurance of my highest consideration.

Yours sincerely,

Virginia Bonoan Dandan
Chairperson of the Committee on
Economic, Social and Cultural Rights

Mr. Rubens Ricupero
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**SUBSTANTIVE ISSUES ARISING IN THE IMPLEMENTATION OF THE
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*Statement adopted by the Committee on Economic, Social and Cultural Rights
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1. In 1948, the Universal Declaration of Human Rights established that poverty is a human rights issue.¹ This view has been re-affirmed on numerous occasions by various United Nations bodies, including the General Assembly and Commission on Human Rights.² Although the term is not explicitly used in the International Covenant on Economic, Social and Cultural Rights,³ poverty is one of the recurring themes in the Covenant and has always been one of the central concerns of the Committee. The rights to work, an adequate standard of living, housing, food, health and education, which lie at the heart of the Covenant, have a direct and immediate bearing upon the eradication of poverty. Moreover, the issue of poverty frequently arises in the course of the Committee's constructive dialogue with States parties. In the light of experience gained over many years, including the examination of numerous States parties' reports, the Committee holds the firm view that poverty constitutes a denial of human rights.

2. Accordingly, the Committee warmly welcomes the renewed commitment of a number of States and international organizations to the policy objective of poverty eradication, as well as related policy goals such as the elimination of social exclusion. The Committee regrets, however, that the human rights dimensions of poverty eradication policies rarely receive the attention they deserve. This neglect is especially regrettable because a human rights approach to poverty can reinforce anti-poverty strategies and make them more effective.

3. The present statement is aimed at encouraging the integration of human rights into poverty eradication policies by outlining how human rights generally, and the Covenant in particular, can empower the poor and enhance anti-poverty strategies. It is not sought in this statement to formulate a detailed anti-poverty programme or plan of action, but to identify concisely the distinctive contribution of international human rights to poverty eradication. The preparation of operational anti-poverty programmes is a separate undertaking of the first importance which all actors should pursue as a matter of urgency and with due regard to international human rights.

¹ The Preamble to the Universal Declaration of Human Rights, and the common Preamble to the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights emphasize the importance of "freedom from ... want".

² For example, see General Assembly resolution 55/106 of 4 December 2000 and Commission on Human Rights resolution 2001/31 of 23 April 2001.

³ The term "poverty" is not found in any of the major international human rights instruments. For a recent United Nations study of the links between human rights, development and poverty, see *Human Development Report 2000: Human Rights and Human Development*, UNDP.

The scale and nature of the problem

4. The President of the World Bank recently wrote: "[P]overty remains a global problem of huge proportions. Of the world's 6 billion people, 2.8 billion live on less than \$2 a day, and 1.2 billion on less than \$1 a day. Six infants of every 100 do not see their first birthday, and 8 do not survive to their fifth. Of those who do reach school age, 9 boys in 100, and 14 girls, do not go to primary school."⁴ While statistics do not provide a complete understanding of poverty, these shocking figures signify massive and systemic breaches of the Universal Declaration of Human Rights and the two International Covenants, as well as of the Convention on the Elimination of All Forms of Discrimination against Women, the Convention on the Rights of the Child and other international human rights instruments.

5. Poverty is not confined to developing countries and societies in transition, it is a global phenomenon experienced in varying degrees by all States. Many developed States have impoverished groups, such as minorities or indigenous peoples, within their jurisdictions. Also, within many rich countries there are rural and urban areas where people live in appalling conditions – pockets of poverty amid wealth. In all States, women and girls bear a disproportionate burden of poverty, and children growing up in poverty are often permanently disadvantaged. In the Committee's view, the greater empowerment of women in particular is an essential precondition for the eradication of global poverty.

6. While the common theme underlying poor people's experiences is one of powerlessness,⁵ human rights can empower individuals and communities. The challenge is to connect the powerless with the empowering potential of human rights. Although human rights are not a panacea, they can help to equalize the distribution and exercise of power within and between societies.

Definitions

7. In the recent past, poverty was often defined as insufficient income to buy a minimum basket of goods and services. Today, the term is usually understood more broadly as the lack of basic capabilities to live in dignity. This definition recognizes poverty's broader features, such as hunger, poor education, discrimination, vulnerability and social exclusion.⁶ The Committee notes that this understanding of poverty corresponds with numerous provisions of the Covenant.

⁴ World Bank, *World Development Report 2000/2001. Attacking Poverty*, Oxford University Press.

⁵ For example, see Deepa Narayan, *Voices of the Poor. Can Anyone Hear Us?*, published by the Oxford University Press for the World Bank, 2000.

⁶ According to chapter II, entitled "Eradication of poverty", in the Programme of Action of the World Summit for Social Development (1995): "Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making and in civil, social and cultural life." (para. 19)

8. In the light of the International Bill of Rights, poverty may be defined as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights. While acknowledging that there is no universally accepted definition, the Committee endorses this multi-dimensional understanding of poverty, which reflects the indivisible and interdependent nature of all human rights.

The international human rights normative framework.

9. International human rights provide a framework of norms or rules upon which detailed global, national and community-level poverty eradication policies can be constructed. While poverty raises complex multi-sectoral issues that are not amenable to simple solutions, the application of the international human rights normative framework to these issues helps to ensure that essential elements of anti-poverty strategies, such as non-discrimination, equality, participation and accountability, receive the sustained attention they deserve. In this context, the Committee wishes to highlight briefly three features of the international human rights normative framework.

10. *First*, the normative framework encompasses the entire range of civil, cultural, economic, political and social rights, and the right to development. While the rights enumerated in the Covenant, such as the right to an adequate standard of living, are of central importance to the poor, the Committee emphasizes that all civil and political rights, as well as the right to development, are also indispensable to those living in poverty.⁷ Because of its mandate, expertise and experience, the Committee gives particular attention to the economic, social and cultural rights dimensions of anti-poverty strategies, but all rights are equally important as a means of ensuring that all people can live in freedom and dignity.

11. *Second*, non-discrimination and equality are integral elements of the international human rights normative framework, including the International Covenant on Economic, Social and Cultural Rights. Sometimes poverty arises when people have no access to existing resources because of who they are, what they believe or where they live. Discrimination may cause poverty, just as poverty may cause discrimination. Inequality may be entrenched in institutions and deeply rooted in social values that shape relationships within households and communities. Accordingly, the international norms of non-discrimination and equality, which demand that particular attention be given to vulnerable groups and individuals from such groups, have profound implications for anti-poverty strategies.

⁷ Consistent with part I, paragraph 5 of the Vienna Declaration and Plan of Action, adopted by the World Conference on Human Rights (1993): "All human rights are universal, indivisible and interdependent and interrelated. The international community must treat human rights globally in a fair and equal manner, on the same footing, and with the same emphasis."

12. *Third*, the international human rights normative framework includes the right of those affected by key decisions to participate in the relevant decision-making processes. The right to participate is reflected in numerous international instruments, including the International Covenant on Economic, Social and Cultural Rights and the Declaration on the Right to Development.⁸ In the Committee's experience, a policy or programme that is formulated without the active and informed participation of those affected is most unlikely to be effective. Although free and fair elections are a crucial component of the right to participate, they are not enough to ensure that those living in poverty enjoy the right to participate in key decisions affecting their lives.

13. In conclusion, anti-poverty policies are more likely to be effective, sustainable, inclusive, equitable and meaningful to those living in poverty if they are based upon international human rights. For this to occur, human rights need to be taken into account in all relevant policy-making processes.⁹ Thus, there is a need for appropriately trained officials operating good processes that are informed by reliable, disaggregated data.

Obligations and accountability

14. The Covenant empowers the poor by granting them rights and imposing legal obligations on others, such as States. Critically, rights and obligations demand accountability; unless supported by a system of accountability, they can become no more than windowdressing. Accordingly, the human rights approach to poverty emphasizes obligations and requires that all duty-holders, including States and international organizations, are held to account for their conduct in relation to international human rights law. In its General Comment No. 9, the Committee remarks upon mechanisms of legal accountability for State parties. As for other duty-holders, they must determine which accountability mechanisms are most appropriate in their particular case. However, whatever the mechanisms of accountability, they must be accessible, transparent and effective.¹⁰

Core obligations: national and international responsibilities

15. According to the Covenant, the enumerated rights are subject to resource availability and may be realized progressively.¹¹ However, General Comment No.3, adopted in 1990, confirms that State parties have a "core obligation to ensure the satisfaction of, at the very least, minimum essential levels of each of the rights" enunciated in the Covenant. As the Committee observes, without such a core obligation, the Covenant "would be largely

⁸ See article 13.1 of the International Covenant on Economic, Social and Cultural Rights and article 2.3 of the Declaration on the Right to Development.

⁹ See statement of the Committee on Economic, Social and Cultural Rights to the Third Ministerial Conference of the World Trade Organization, Seattle, 30 November-3 December 1999 (E/C.12/1999/9).

¹⁰ For the Committee's remarks on the "Obligations of actors other than States parties" see, in particular, General Comment No. 13, part III and General Comment No. 14, part V; also General Comment No. 12, paras. 20 and 38-41.

¹¹ Article 2.1.

deprived of its *raison d'être*".¹²

16. More recently, the Committee began to identify the core obligations arising from the "minimum essential levels" of the rights to food, education and health,¹³ and it confirmed that these core obligations are "non-derogable".¹⁴ In General Comment No.14, the Committee emphasizes that it is particularly incumbent on all those in a position to assist, to provide "international assistance and cooperation, especially economic and technical" to enable developing countries to fulfil their core obligations.¹⁵ In short, core obligations give rise to national responsibilities for all States and international responsibilities for developed States, as well as others that are "in a position to assist".

17. Thus, the core obligations of economic, social and cultural rights have a crucial role to play in national and international developmental policies, including anti-poverty strategies. When grouped together, the core obligations establish an international minimum threshold that all developmental policies should be designed to respect. In accordance with General Comment No.14, it is particularly incumbent on all those who can assist, to help developing countries respect this international minimum threshold. If a national or international anti-poverty strategy does not reflect this minimum threshold, it is inconsistent with the legally binding obligations of the State party.

18. For the avoidance of any misunderstanding, the Committee wishes to emphasize three points. First, because core obligations are non-derogable, they continue to exist in situations of conflict, emergency and natural disaster. Second, because poverty is a global phenomenon, core obligations have great relevance to some individuals and communities living in the richest States. Third, after a State party has ensured the core obligations of economic, social and cultural rights, it continues to have an obligation to move as expeditiously and effectively as possible towards the full realization of all the rights in the Covenant.

Conclusion

19. The Committee strongly recommends the integration of international human rights norms into participatory, multi-sectoral national poverty eradication or reduction plans.¹⁶ Such anti-poverty plans have an indispensable role to play in all States, no matter what their stage of economic development.

20. Non-State actors, including international organizations, national human rights institutions, civil society organizations and private businesses, also have heavy responsibilities in the struggle against poverty. Each should clearly identify how it can

¹² General Comment No. 3, para. 10.

¹³ General Comment Nos. 11, 13 and 14 respectively.

¹⁴ General Comment No. 14, para. 47.

¹⁵ General Comment No. 14, para. 45. The Covenant refers to "international assistance and cooperation", or similar formulations, in articles 2.1, 11.2, 15.4, 22 and 23.

¹⁶ Such as those anticipated by the World Summit for Social Development (1995) and the more recent Enhanced Heavily Indebted Poor Countries Initiative. For a recent examination of national poverty eradication plans see UNDP, *Poverty Report 2000: Overcoming Human Poverty*.

contribute to poverty eradication, keeping in mind the human rights dimensions of poverty as outlined in this statement.

21. The Committee is deeply aware that there are structural obstacles to the eradication of poverty in developing countries. Through its various activities, including the reporting process and the adoption of general comments, the Committee attempts to assist developing States by identifying measures that they can and should take to address these obstacles. However, some of the structural obstacles confronting developing States' anti-poverty strategies lie beyond their control in the contemporary international order. In the Committee's view, it is imperative that measures be urgently taken to remove these global structural obstacles, such as unsustainable foreign debt, the widening gap between rich and poor, and the absence of an equitable multilateral trade, investment and financial system, otherwise the national anti-poverty strategies of some States have limited chance of sustainable success. In this regard, the Committee notes article 28 of the Universal Declaration of Human Rights, as well as the Declaration on the Right to Development, in particular article 3.3.¹⁷

22. So far as its resources and other responsibilities permit, the Committee continues to prepare additional general comments that clarify the normative content of economic, social and cultural rights, including their core obligations, and it invites all parties to assist in this important and challenging task.

23. Conscious of their far-reaching importance, the Committee confirms its willingness to discuss the issues identified in this statement with all those committed to the eradication of poverty.

Adopted on 4 May 2001

¹⁷ Article 28 of the Universal Declaration of Human Rights: "Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized." Article 3.3 of the Declaration on the Right to Development: "States have the duty to cooperate with each other in ensuring development and eliminating obstacles to development."



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**Human Rights, Poverty and Governance in the Least Developed Countries:
Rights-based Approaches Towards a New Framework of Cooperation**

**Contributions of the United Nations Office of the High Commissioner for Human Rights to the
Third United Nations Conference on the Least Developed Countries**

GE.01-70050

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Introduction

The group of 49 least developed countries (LDCs) are some of the poorest and weakest members of the international community, characterized by a series of vulnerabilities in terms of access to services and resources, an acute vulnerability to external 'economic shocks', as well as man-made and natural disasters. Ten years after the adoption of the Paris Declaration and the Programme of Action for the 1990s, development performance remained elusive for a significant number of LDCs. Despite various policy reforms undertaken by LDCs, as *UNCTAD LDC 2000 Report* illustrates, evidence suggests that the level of poverty and inequality both within and among these countries continues to be on the rise.

At the Third United Nations Conference on Least Developed Countries (LDC III), to be held in Brussels from 14 to 20 May 2001, Governments will assess the results of the Programme of Action for the 1990s, review the implementation of international support measures, and consider appropriate national and international policies for the sustainable development of LDCs and their progressive integration into the global economy. *UNCTAD LDC 2000 Report* argues that, unless significant improvements are made in international development cooperation in terms of aid and debt relief policies, measures to promote private capital flows and the international trade regime, LDCs will become pockets of poverty in the global economy and can even become caught in a vicious circle of economic regress, social stress and political instability.

This paper^{*} argues that a radical rethinking of international development cooperation must be based on a framework of partnership that is rooted in the principles and norms of human rights as the universally accepted standards and guidelines for human development. Poverty and inequality are not just economic or social problems, but are human rights issues. The international community not only has moral imperatives but also legal obligations under the international law to address these "silent violations" of human rights, and to put LDCs and their people on a path to sustainable development and human dignity.

The paper will first review the earlier commitments relevant to human rights made in the Paris Declaration and Programme of Action for the 1990s and the progress achieved in LDCs in the field of human rights during the last decade. Then the paper will set out a conceptual framework for integrating human rights into framework of partnership between LDCs and their development partners for the next decade, and reviews relevance of human rights in issues such as poverty, governance and capacity-building, as relevant to some of the key commitments that are on the agenda at LDC III. The paper concludes with some recommendations for integrating human rights in the follow-up and monitoring mechanisms for the implementation of the new Programme of Action.

I. Human rights in LDCs: review of progress since 1990

In the Paris Declaration adopted at the Second United Nations Conference on Least Developed Countries in September 1990, Governments explicitly recognized it as an ethical imperative for the international community to refuse to accept the marginalization of LDCs. It stated that "our world will not enjoy lasting peace without respect for the United Nations Charter, international commitments and shared development".¹ The Programme of Action for the 1990s further recognized that "respect for human rights, individually and as a group, as enshrined in the United Nations Charter and the Universal Declaration of Human Rights

^{*} This paper benefited in part from valuable inputs by the Rights and Humanity, an independent consultant engaged under a joint arrangement with, and generous financial support from UNCTAD in preparation for the LDC III Conference.

¹ A CONF 147/18, page 3.

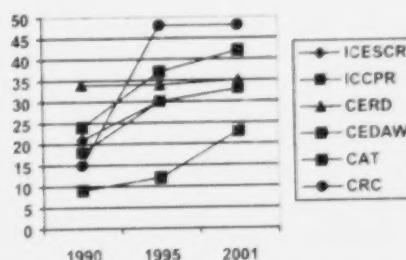
(UDHR), constitutes a universal obligation and stimulates the creativity, innovation and initiative necessary for socio-economic development. Its fulfilment, along with democratization and observance of the rule of law, is a part of the process of development".²

Box 1: Recognition of human rights in the Paris Declaration and the Programme of Action

In the second priority area identified in the Paris Declaration and Programme of Action of the Second United Nations Conference on Least Developed Countries (A/CONF.147/18), Governments committed "to develop human resources, by making populations, both men and women, the actors and beneficiaries of development, by respecting human rights and social justice, and by applying effective population, health, education, training and employment policies". The 1990 Programme of Action further recognized the importance to "broaden popular participation in the decision-making process at all levels" in order to all people "to participate fully and freely in economic, social, cultural and political activities", through the promotion of all human rights, with special attention to indigenous people, women and children's rights".

There can be no doubt that much progress has been achieved in terms of increased commitments by Governments to respect and promote human rights during the last decade; the increasing number of LDC State Parties ratifying the international human rights treaties and conventions is evidence of this. Since September 1990, the number of LDC State Parties have increased: (a) from 21 to 33 under the International Covenant on Economic, Social and Cultural Rights (ICESCR); (b) from 18 to 33 under the International Covenant on Civil and Political Rights (ICCPR); (c) from 34 to 35 under the International Convention on the Elimination of All Forms of Racial Discrimination (CERD); (d) from 24 to 42 under the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW); (e) from 9 to 23 under the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT); (f) and from 15 to 48 under the Convention on the Rights of the Child (CRC).

Increase in LDC ratifications to major international instruments



However, much needs to be done to transform the rhetoric of human rights into reality. The linkage between the stability and economic growth is clear. In 11 LDCs which have experienced serious armed conflicts and internal instability during the 1990s, the real GDP per capita has declined by over 3 per cent per annum over this period, which is contrasted by another group of 15 LDCs, including seven in Asia, which enjoyed relatively peaceful and political environment and a relatively steady economic growth of over 2 per cent per annum in GDP per capita from 1990 to 1998.

There are also evidences of rising social inequalities within the LDCs and relative to other developing countries. While LDCs have made some progress in a number of social indicators, the LDCs continue to lag behind other developing countries in terms of

² A/CONF.147/18, para. 64.

improvements in life expectancy and infant mortality. The gender gap in education, for example, is much greater in LDCs than in other developing country groups, and the difference seems to have widened substantially over the last two decades. According to UNCTAD projections, only one-fourth of LDCs are on target to reach the international development goal of universal primary education by 2015.

II. Rights-based approach to development: a conceptual framework for partnership

A call for greater recognition of human rights in development has been the collective message that has emanated from all of the global summits and conferences of the 1990s. At the Millennium Summit, heads of State and Government made an unequivocal commitment to "spare no efforts to promote democracy and strengthen the rule of law, as well as respect for all internationally recognized human rights and fundamental freedoms, including the right to development". They further committed to "making the right to development a reality for everyone and to freeing the entire human race from want".³

The right to development, or in other words, "the right to participate in, contribute to and enjoy economic, social, cultural and political development" was proclaimed in the Declaration on the Right to Development in 1969 and reaffirmed as a universal human right at the World Conference on Human Rights in Vienna in 1993. This fundamental right frames development as "a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom".

Democracy, development and respect for human rights and fundamental freedoms are interdependent and mutually reinforcing.

- Vienna Declaration and Programme of Action

A rights-based approach to development is a conceptual framework for the process of human development that is normatively based on international human rights standards and operationally directed to promoting and protecting human rights. Essentially, a rights-based approach integrates the norms, standards, and principles of the international human rights system into the plans, policies and processes of development. The norms and standards are those contained in the wealth of international treaties and declarations. The principles include those of equality and equity; accountability; empowerment and participation.

A. Express linkage to rights

Such approaches begin by expressly defining the objectives of development and aid in terms of particular rights, as legally enforceable entitlements, and create express normative links to international, regional and national human rights instruments. Rights-based approaches are comprehensive in their consideration of the full range of indivisible, interdependent and interrelated rights: civil, cultural, economic, political and social. This implies a development framework with sectors mirroring internationally guaranteed rights, and thus covers health, education, housing, justice administration, personal security, political participation, and so on.

B. Accountability

Rights-based approaches focus on raising levels of accountability in the development process by identifying claim-holders (and their entitlements) and corresponding duty-holders (and their obligations). In this regard, they look both at the positive obligations (to protect, promote and provide) of duty holders, and their negative obligations (to abstain from

³ A/RES/55/2, op. 24 and 11.

violations). They take into account the duties of the full range of relevant actors, including individuals, communities, states, local organizations and authorities, private companies, aid-donors, and international institutions. Such approaches must also attend to the development of adequate laws, policies, institutions, administrative procedures and practices, and mechanisms of redress and accountability to deliver on entitlements, respond to denial and violations, and ensure accountability. These will include, variously, courts, administrative panels and tribunals, special commissions, ombudsman offices, and others. They also imply translating universal standards into locally determined benchmarks for measuring progress and enhancing accountability.

C. Empowerment

Rights-based approaches also give preference to strategies for empowerment, over charitable responses. They focus on beneficiaries as the owners of rights and the directors of development, and emphasize the human person as the centre of the development process (directly, through their advocates and through organizations of civil society). The goal is to give people the power, capacities, capabilities, and access necessary to change their own lives, improve their own communities, and influence their own destinies. People must not be viewed as passive subjects, but must be able to participate in, contribute to and enjoy development.

D. Participation

Rights-based approaches require a high degree of participation, including from communities, civil society, minorities, indigenous peoples, women, and others. Such participation must be "active, free, and meaningful", such that mere formal or "ceremonial" contacts with beneficiaries is not sufficient. Rights-based approaches give due attention to issues of accessibility, including to development processes, institutions, information and redress or complaints mechanisms. This means also situating development project mechanisms in proximity to partners and beneficiaries. Such approaches necessarily opt for process-based development methodologies and techniques, rather than externally conceived "quick fixes" and imported technical models.

E. Non-discrimination and attention to vulnerable groups

The human rights imperative of such approaches also means that they must include particular attention to discrimination, equality, equity and to vulnerable groups, among them women, minorities, indigenous peoples, prisoners, and others. There is, however, no universal checklist of who is most vulnerable in every given context. Rather, rights-based approaches require that such questions be answered locally: who is vulnerable, here, and now? As such, development data must be disaggregated, to the extent possible, by race, religion, ethnicity, language, sex and other categories of human rights concern. Determinations must be made about how fairly the benefits of development are distributed, who in particular benefits, and who is excluded. Rights-based approaches demand the incorporation of express safeguards in development instruments to protect against threats to the rights and well being of prisoners, minorities, migrants and other often domestically unpopular groups.

The new Programme of Action for LDCs for the Decade 2001-2010 needs firmly to embrace the human rights norms and principles, and to recommit to promoting the right to development, if it is to guide LDCs and their development partners with better clarity and to create a broader consensus on its requirements for implementation. The Programme of Action should recognize the central role of human rights in developing individual capacities to create and benefit from economic growth. Adopting the "rights-based approach" to development, thereby raising the level of accountability in the development process, and better empowering

people as both the beneficiaries and agents of development, will strengthen sustained progress for LDCs in the coming decade.

III. Poverty and human rights

At the Millennium Summit, world leaders committed to the goal of halving the extreme poverty by the year 2015. Poverty alleviation has thus been identified as a major goal for LDCs and their development partners in the draft Programme of Action in its Preambles and under the Commitment 1.⁴ Available statistics show that about 45 per cent of the LDC population live in extreme poverty on less than \$1 a day, and 75 per cent live on less than \$2 per day.

Perhaps no social phenomenon is as comprehensive as in its assault on human rights as poverty. In the words of the High Commissioner, poverty is a "denial of a whole range of rights pertaining to the human being, based on each individual's dignity and worth". Poverty erodes or nullifies economic and social rights like the rights to food and safe water, to health, to adequate housing and to education. The same holds for civil and political rights, such as the right to political participation, to security of the person and access to justice.

Consider, for example, in the early 1990s the amount spent on health in LDCs was on average just over \$11 per person, while for other developing countries it was just below \$100 and \$1,700 for OECD countries.⁵ The poor, denied access both to health care and to justice, deprived both of economic security and political power, are acutely aware of the indivisibility of rights.

Poverty is a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other fundamental civil, cultural, economic, political and social rights. In other words, the respect and fulfilment of these rights would represent a significant step towards the eradication of poverty. The Committee on Economic, Social and Cultural Rights, a standard-setting and monitoring body for the International Covenant on Economic, Social and Cultural Rights, adopted a statement on poverty and the Covenant at its twenty-fifth session on 4 May 2001.⁶ Recalling that the Universal Declaration of Human Rights and the two International Covenants on Human Rights all emphasize the importance of freedom from want, the Committee underlines that international human rights provide a framework of norms or rules upon which detailed global, national and community-level poverty eradication policies can be constructed:

*"While poverty raises complex multi-sectoral issues that are not amenable to simple solutions, the application of the international human rights normative framework to these issues helps to ensure that essential elements of anti-poverty strategies, such as non-discrimination, equality, participation, and accountability, receive the sustained attention they deserve."*⁷

The Committee adds that non-discrimination and equality are integral elements of the international human rights normative framework. Sometimes poverty arises when people are unable to access existing resources because of who they are, what they believe, or where they live. Discrimination may cause poverty, just as poverty may cause discrimination. The Committee views that anti-poverty policies are more likely to be effective, sustainable,

⁴ A/CONF.191/6, paras. 4 and 22.

⁵ UNCTAD, *The Least Developed Countries 2000 Report* (UNCTAD/LDC 2000), p. 8.

⁶ E/C.12/2001/10.

⁷ *Ibid.*, para. 2.

inclusive, equitable and meaningful to those living in poverty if they are based upon international human rights.

The United Nations system is increasingly addressing poverty and development through rights-based approaches, which are for example advocated in the Secretary-General's reform programme, the CCA/UNDAF process and the United Nations Strategy for Halving Extreme Poverty by 2015 (including its *options for action*). Human rights are recognized as key strategic and substantive elements, and human rights conventions and declarations are used as a reference frame for addressing development and poverty issues, the progressive realization of human rights, and the promotion of poor people's awareness of their rights and entitlements. The challenge now is one of effective implementation, which in turn implies a need to provide enhanced support to UN country teams and their development partners at the national level, as well as to ensure complementarity and effective inter-linkages with national planning processes and other relevant instruments and initiatives, such as the CDF and PRSP.

There is need to fully integrate the outputs of the UNDAF/CCA process into PRSPs. A clear and effective interface between the PRSP and the CCA/UNDAF will be vital to ensuring that the PRSP (now clearly the dominant poverty reduction instrument at the national level) is consistent with human rights goals and requirements. While the CCA/UNDAF explicitly invoke human rights, the PRSP does not. This is one potential added value of the CCA/UNDAF to the PRSP process. Consideration should also be given to the extent to which the national PRSPs reflect rights-based approaches, including due attention to maximizing participation, accountability, non-discrimination, attention to vulnerability, empowerment and linkage to international human rights norms.

The UN Millennium Declaration calls for developing "strong partnerships with the private sector and with civil society organizations in pursuit of development and poverty eradication". However, the recent review of PRSPs has shown that civil society is not sufficiently associated with the process. There is a need to maximize free, active and meaningful civil society participation. Civil society should be able to effectively contribute to the elaboration and implementation of PRSPs at the country level.

IV. Challenges of governance in LDCs

Good governance and the rule of law at both a national and an international levels, which are the focus of the new Programme of Action under its Commitment 2, constitute important elements in the promotion, protection and fulfilment of all human rights. The Vienna Declaration and Programme of Action of the 1993 World Conference on Human Rights affirmed that democracy, development and respect for human rights and fundamental freedoms are interdependent and mutually reinforcing. More recently, the Commission on Human Rights in its resolution 2000/64, recognized that "transparent, responsible, accountable and participatory government, responsive to the needs and aspirations of the people, is the foundation on which good governance rests, and that such a foundation is a *sine qua non* for the promotion of human rights".⁸ The resolution also emphasized the need to promote partnership approaches to international development cooperation and to ensure that prescriptive approaches to good governance do not impede such cooperation.

For LDCs and their development partners, strengthening of governance systems both at national and international levels, requires firm recognition and commitment to the human rights norms and principles, including the right to development. There is a need to recognize

⁸ E/CN.4/RES.2000/64 "The role of good governance in the promotion of human rights", 27 April 2000.

the central role of human rights in developing individual capacities to create and benefit from economic growth.

But promotion and protection of human rights in LDCs, and thereby strengthening the system of governance, present a particular set of challenges. Lack of political will to respect and promote human rights is often the central problem, as in many other countries elsewhere. Furthermore, several LDCs have suffered from internal and external conflicts, which have severely affected the situation of human rights in these countries, as do weaknesses in the structures of public institutions and civil society and the resource scarcity.

A. Strengthening norms, institutions, legal frameworks and enabling environment at the national level

While many LDCs have ratified the major international human rights instruments, the actual implementation and realization of the rights remain problematic in many LDCs. In many cases, inadequate institutional capacity and a general lack of understanding and awareness about human rights are key contributing factors. For example, key public officials including parliamentarians, the judiciary, law enforcement and other government officials are often unfamiliar with the obligations which international and national human rights law imposes upon them in the execution of their functions.

Many countries also lack dedicated human rights institutions, such as national commissions or Ombudsman offices, which are able to give a voice to the marginalized groups and victims of human rights violations. In countries where such institutions do exist, they are often under-funded and inadequately staffed, and/or are not given adequate independence.

Box 2: Strengthening national institutions

Independent national institutions for the promotion and protection of human rights play an important role in fostering a culture of human rights. During 2000, OHCHR was requested to provide information, advice and/or assistance concerning the establishment or strengthening of such institutions in a large number of countries including such LDCs as Bangladesh, Cambodia, Malawi, Nepal, Rwanda, Sierra Leone, Uganda and Zambia. With further support from the international community, national institutions in these and other LDCs could be strengthened to act as a source of human rights information, to assist in promoting awareness on human rights and to advise and make recommendations on human rights matters referred to them by the Government.

A broader long-term agenda for human rights strengthening is legal recognition and enforcement. Following the recommendation of the World Conference on Human Rights in Vienna, some countries have established National Human Rights Action Plan (NHRAP), strongly encouraged by the United Nations High Commissioner for Human Rights. To be meaningful and effective, such plans need strong political commitment and broad popular participation in their design and implementation. Their development provides a country with an opportunity to foster a human rights culture and an understanding of human rights values in relation to their citizens and non-citizens including refugees, both in public institutions, civil society and the business community.

The NHRAP should also be a mutually-enforcing part of country's overall socio-economic development strategy, notably the LDC National Programme of Action. The enabling economic environment needs to facilitate access to many rights recognized under the international instruments, and should not be detrimental to the realization of any of the rights. Economic resources are needed to pay teachers and health workers, support judicial

systems and meet a host of other needs, including refugee determination procedures. Not only the economic development is important for human rights, but also the growth should be equitable and resources should be allocated to protect the most vulnerable and marginalized.

Box 3: HURIST

UNDP and OHCHR jointly launched HURIST (Human Rights Strengthening) programme in 1999 to identify best practices and learning opportunities in the development of national capacity for the promotion and protection of human rights, including assistance in integrating human rights in UNDP country programming. HURIST also assists requesting countries in developing a national plan for the promotion of human rights as well as in their ratification to international human rights instruments. Currently, 13 LDCs are covered under various components in HURIST.

B. Building inclusive, democratic society

The concept of democracy, expressed in the 1993 Vienna Declaration and Programme of Action as "based on the freely expressed will of the people to determine their own political, economic, social and cultural systems and their full participation in all aspects of their lives" is intricably linked to the development of and respect for human rights. The Universal Declaration of Human Rights gives everyone the right to take part in the government of his country and the right to equal access to public service. It states 'the will of the people shall be the basis of the authority of government.' Article 25 of the International Covenant on Civil and Political Rights recognises and protects the right of every citizen to take part in the conduct of public affairs, the right to vote and to be elected and the right to have access to public service. These rights lie at the core of democratic government based on the consent of the people and in conformity with the principles of the international human rights instruments. Freedom of opinion, expression, assembly and association are crucial for the effective functioning of a democratic society. An independent and impartial media and a vigorous civil society play crucial role in this regard.

With the help of their development partners, LDCs should commit themselves to taking actions to promote or consolidate democracy. It is often acknowledged that conflict and war are perhaps the biggest avoidable impediments to democracy and development as well as full enjoyment of human rights. The sources of conflict and war are pervasive and deep requiring dedicated efforts to combat them.

Promotion of democracy requires first and foremost putting in place the policies, laws, and institutions which guarantee respect for all human rights and fundamental freedoms. Individual rights and personal security must be protected by the rule of law, which implies a fair administration of justice and a fully functioning, independent judiciary.

Non-discrimination is a cornerstone of international human rights law, and LDCs must take actions to review their policies and legislation with a view to repealing discriminatory laws and practices, and to enacting those which will serve to strengthen equality in society, with special attention to protection of most vulnerable groups.

Participation of individuals in decision-making is crucial, as is political participation, including equal opportunity for all citizens to run for public office. Elections in and of themselves do not constitute democracy, however, periodic and genuine elections are a necessary and indispensable element of sustained efforts to protect the rights and interests of the governed.

V. Empowering human capacities in LDCs

The draft Programme of Action, under its Commitments 3 and 4, focuses on building human, institutional and productive capacities in sectors such as education, health, food and employment. It states that the greatest asset of LDCs is their human resources, "their women, men and children whose potentials as both agents and beneficiaries of development must be fully realized".⁹ In LDCs, development of human capacities has often been hindered by low school enrolment, low health, nutrition and sanitary status, the prevalence of HIV/AIDS particularly in Africa, malaria, tuberculosis and other communicable diseases and also by natural and man-made disasters. An immediate priority is to increase efforts in fighting HIV/AIDS, malaria and tuberculosis and their social and economic impact.

Many of the issues raised under these commitments are in fact addressed in internationally agreed provisions under international human rights instruments. Some of these relate to the rights to education (art. 26, UDHR; art. 13, ICESCR), to health (art. 25, UDHR; art. 12, ICESCR) and to food (art. 11.2, ICESCR), which are briefly reviewed below to illustrate the empowering dimension of human rights for the poor and the vulnerable.

A. Education

Increasingly, education is recognized as one of the best financial investments States can make. The General Comment No. 13 adopted by the Committee on Economic, Social and Cultural Rights defined education as "both a human right in itself and an indispensable means of realizing other human rights". As an empowerment right, education is the primary vehicle by which economically and socially marginalized adults and children can lift themselves out of poverty and obtain the means to participate fully in their communities. Education has a vital role in empowering women, safeguarding children from exploitative and hazardous labour and sexual exploitation, promoting human rights and democracy, protecting the environment, and controlling population growth.

"If you are not educated, you cannot get a job, and no job determines position in the society. Our parents did not go to school, and so we are poor today. Education can change this".

-- from the *Voices of the Poor*

The Special Rapporteur on the right to education points to the effects of aid-debt nexus on education in developing countries particularly LDCs. She notes that the focus of aid policies in the 1990s has been on poverty alleviation, but that "there are as yet no definitions and standardized measures on what anti-poverty aid means in theory and practice". She warns that the impact on education is likely to be significant but as yet unpredictable, and that "education cannot be expected to lead to poverty eradication before education itself is rescued from poverty".¹⁰

B. Health

Health is a fundamental human rights indispensable for the exercise of other human rights. The lack of adequate health care is often a direct cause of poverty in many LDCs. "The hospital is rated by the poor as one of the most important institutions – and also as one of the most prohibitively expensive".¹¹ In its General Comment No. 14 on the right to the highest attainable standard of health,¹² the Committee on Economic, Social and Cultural Rights

"We watch our children die because we cannot pay the high hospital bills".

-- from the *Voices of the Poor*

⁹ A/CONF.191/6, para. 30.

¹⁰ See the progress report of the Special Rapporteur on the right to education, Ms. Katarina Tomasevski, E/CN.4/2000/6, 1 February 2000.

¹¹ *Voices of the Poor I*, p. 87.

specified the following elements as part of the core obligations pertaining to the right to health:

- (a) To ensure the right of access to health facilities, goods and services on a non-discriminatory basis, especially for vulnerable or marginalized groups;
- (b) To ensure access to the minimum essential food which is nutritionally adequate and safe, to ensure freedom from hunger to everyone;
- (c) To ensure access to basic shelter, housing and sanitation, and an adequate supply of safe and potable water;
- (d) To provide essential drugs, as from time to time defined under the WHO Action Programme on Essential Drugs; and
- (e) To ensure equitable distribution of all health facilities, goods and services.

The States are under obligation to fulfil and facilitate the realization of these elements of the right to health by taking positive measures that enable and assist individuals and communities to enjoy this fundamental right. This would require, inter alia, adoption of a national strategy to ensure to all the enjoyment of the right to health, based on human rights principles which define the objectives of that strategy, and the formulation of policies and corresponding right to health indicators and benchmarks. The national health strategy should also identify the resources available to attain defined objectives, as well as the most cost-effective way of using those resources.¹³ Nevertheless, these are rights that poor people regularly experience violations of, both in terms of discrimination (access to health care facilities as often quite unequal for men and women), and lack of access to safe drinking water, shelter, housing and sanitation, and lack of access to basic health care facilities even if they do exist. The occurrence not only of costs to pay for health care, but also bribes required to receive treatment and corruption is by many poor identified as a major hurdle in their struggle to get access to health care.¹⁴

C. Food

In its General Comment No. 12,¹⁵ the Committee on Economic, Social and Cultural Rights affirmed that the right to adequate food is a fundamental human right, and is indivisibly linked to the inherent dignity of human persons and indispensable for the fulfilment of other human rights. Everyone's right to adequate food is firmly established in the international human rights instruments.¹⁶ Article 11.2 of the ICESCR states that "The States Parties to the Present Covenant, recognizing the fundamental right of everyone to be free from hunger". Indeed, this is the only right in the Covenant accompanied by the term 'fundamental'. Due to lack of financial and material resources, poor people inevitably face real difficulties in fulfilling their rights to food. As food is a basic need for human survival, the struggle to ensure even the very minimum availability of food will for poor people overshadow their efforts to tackle other imminent problems such as health care, housing and education. It will also prevent poor people from participating in communal or other efforts to improve their situation – the

"Poverty for me is the fact that we bought some black flour with our last money, some flour cheaper than the rest. When we baked the bread it was not edible. We were speechless and ate it by force since we did not have anything else."

— from the *Voices of the Poor*

¹³ E.C.12/2000/4.

¹⁴ Ibid. para. 53.

¹⁵ *Voices of the poor I*, page 87 ff.

¹⁶ E.C.12/1999/5.

¹⁷ Article 25 of the Universal Declaration of Human Rights (UDHR), and article 11 of the International Covenant on Economic, Social and Cultural Rights (ICESCR).

struggle for the next meal becomes the immediate and all-consuming activity. Clearly the right to adequate food is inseparable from social justice, requiring the adoption of appropriate economic, environmental and social policies, at both the national and international levels, oriented to the eradication of poverty and the fulfilment of all human rights for every person.

VI. Translating the Programme of Action into reality

Enabling the LDCs to attain their full potential is a global responsibility and concerns all parties – both the LDCs and their development partners. International cooperation for the implementation of the new Programme of Action for LDCs is not only a moral imperative of the international community, it is also a legal obligation for all countries.

Both the United Nations Charter and the Universal Declaration of Human Rights emphasize that States have pledged themselves to achieve, in cooperation with the United Nations, the promotion of universal respect for and observance of human rights and fundamental freedoms.¹⁷ The International Covenant on Economic, Social and Cultural Rights obliges States to undertake steps, individually and through international assistance and co-operation, to the maximum of available resources, with a view to achieving progressively the full realization of the rights by all appropriate means.¹⁸

The Declaration on the Right to Development obliges individual States to formulate appropriate national policies and to ensure equal and adequate access to essential resources. Further, the Declaration stipulates the duty of States to take steps, individually and collectively, to formulate international development policies with a view to facilitating the full realization of the right. It also provides that States should realize their rights and fulfil their duties in such a manner as to promote an international economic order based on sovereign equality, interdependence, mutual interest and co-operation among all States.

From a human rights perspective, implementation, follow-up and monitoring and review of the new Programme of Action could be facilitated in a number of ways, within the mandates and existing mechanisms of the United Nations human rights machinery and the OHCHR, namely through: (a) mainstreaming human rights and promoting a rights-based approach in development activities, particularly through UNDAF/CCA process; and (b) promoting closer linkages with the monitoring functions of treaty bodies and other human rights mechanism.

A. Mainstreaming human rights in UN system activities for LDCs

In his 1997 reform programme for the United Nations, the Secretary-General Kofi Annan emphasized the centrality of human rights to all activities of the UN system. Stressing the crosscutting nature of all human rights, the Secretary-General called on all United Nations agencies to take into account human rights as a crucial aspect of their work, and designated the High Commissioner for Human Rights as the focal point in the mainstreaming of human rights. Support in the field of human rights is to facilitate for countries and governments to fulfill their international obligations as members of the United Nations and as signatories to human rights instruments.

International assistance to human rights has been provided for a considerable period of time by the United Nations and its specialised agencies, as well as outside of the United Nations framework by bilateral donors and non-governmental organizations. Activities in this field were stepped up substantially after the end of the cold war, when development agencies such as UNICEF and UNDP began to integrate human rights in their development activities.

¹⁷ *The United Nations Charter*, articles 55 and 56; the Universal Declaration of Human Rights, preamble.

¹⁸ Article 2, the International Covenant on Economic, Social and Cultural Rights.

In the case of UNICEF, the Convention of the Rights of the Child became the framework for its programme. While such an integration of human rights with development is still a work in progress on the part of the United Nations agencies, it gives the programme activities a thrust towards increased focus on the poor and other vulnerable groups, particularly in LDCs.

A number of agencies and programmes both within and outside of the United Nations and their national partners have increasingly come to recognize that narrowly-focused plans and programmes which rely only on growth rates or income-level indicators, short-term measures or anticipated private investment are insufficient to alleviate poverty and promote sustainable development. A rights-based approach to development and poverty alleviation can, in practical terms, empower the poor and produce more sustainable results. This should not be seen as placing human rights as conditionalities to development partnership or assistance. Rather, it is to serve as a strong legal and moral basis for the path to human dignity. Health, education, housing, access to justice and full political participation are neither tradables nor matters for charity for LDCs – but rather matters of right.

Box 4: Mainstreaming human rights in UNDAF/CCA

Since the launch of the Secretary-General's reform programme in 1997, designating human rights as a cross-cutting theme in all activities, OHCHR has been active in assisting the Organization's operational agencies and programmes to integrate human rights into development planning, policy and projects. The principal vehicle for this has been mainstreaming human rights and rights-based approaches in the UNDAF/CCA process. OHCHR has helped train UN country teams, as well as Resident Coordinators in rights-based development, and has worked with the UN Staff College both to integrate a rights-based approach in the general UNDAF/CCA curriculum for country teams, and to prepare a separate, specialized human rights curriculum for country teams. OHCHR has also participated in the development of the DevLink, which provides substantive information and links on four key areas: human rights, poverty, girls' education and gender. OHCHR is also actively pursuing dialogues with other international organizations with a view to promoting rights-based approach, particularly with the World Bank, IMF, WTO and WIPO.

Rights-based approaches also need to be promoted at the national level, in every aspect of government economic policy-making. Rights-based approaches in national policy-making would enhance the openness and transparency, and encourage public debate on options and policy alternatives. Human rights orientation in national policymakers would also have empowering effects for their negotiations with development partners, to ensure that development assistance is targeted towards national priorities set by the country in a way that does not affect negatively on any one of human rights obligations under the international instruments.

The United Nations Programme of Advisory Services and Technical Assistance in the Field of Human Rights promotes development by cooperating in specific projects in LDCs at the request of national Governments. As the link between good governance, stability and increased investment and economic growth becomes clearer, OHCHR is increasingly pursuing subregional strategies, particularly in Africa for building and strengthening human rights institutions and for assisting development agencies to integrate the promotion and protection of human rights into established programmes for development. The strategy involves the assignment of subregional human rights officers to advise Governments and United Nations development agencies on the integration of human rights into development cooperation and policy with a strong focus on promotion of good governance. Pilot projects in southern Africa and Central African subregions have been initiated.

B. Role of United Nations human rights mechanism

Six committees of independent experts have been established under the principal international human rights treaties. The main function of the committees, also referred to as treaty-monitoring bodies, is to monitor the implementation of respective treaties by reviewing State party reports submitted under those treaties. The treaty bodies endeavour to establish a constructive dialogue with States parties to assist them in fulfilling their treaty obligations and to offer guidance for future action through suggestions and recommendations. Almost all LDCs have ratified the Covenant on the Rights of the Child, which covers economic and social as well as civil and political rights. But still some LDCs have not yet acceded to other human rights instruments, such as the ICESCR. In some cases, ratified human rights treaties are not fully implemented, often as a result of lack of resources and institutional capacities. This remains a continuing challenge for LDCs and development partners that support them.

For those LDCs which are parties to these treaties, treaty bodies can provide important inputs to the monitoring and review of the commitments made in the Programme of Action. For example, 21 LDC States parties reports have been reviewed since 1997 under the Committee on the Rights of the Child which is the monitoring body for the Convention on the Rights of the Child. Wherever possible and appropriate, in reviewing such reports from LDCs, treaty bodies should be encouraged to integrate a review of the implementation of the Programme of Action as well as progress towards meeting international development goals agreed at the Millennium Summit.

Increasingly, the United Nations human rights mechanism is engaged in dialogues with international financial and trade institutions, in order to better clarify the human rights obligations of these and other non-State actors which are assuming increasingly important role in the global economy. The Committee on Economic, Social and Cultural Rights had a day of discussion with the international financial institutions on 7 May 2001. The Bretton Woods institutions and the WTO have regularly contributed to the discussion in the Open-ended Working Group on the Right to Development under the Commission on Human Rights.

VII. Conclusion

LDC III provides an opportune occasion for the LDCs and their development partners to devise practical mechanisms of partnership and policy coherence. The implementation of partnership must be based on genuine national ownership, and ownership by the people themselves. Human rights principles and rights-based approaches to development can provide the foundation for the sustained growth of LDCs in the next decade.

LDCs and their development partners also need to bear in mind their obligations under the international human rights law for the full and progressive realization of the rights. While the countries concerned have the primary responsibilities, the international community is also obliged to cooperate and provide assistance to the maximum of its available resources. In today's globalized economy, the international community faces formidable challenges in reducing inequity in the global market and ensuring that the benefits of globalization are shared equitably. This rapidly evolving context makes it all the more urgent the need to find rights-based solutions to poverty and underdevelopment in LDCs, by linking these development challenges to the international human rights framework, ensuring that the poor and the vulnerables effectively and meaningfully participate in development and benefit from it in the coming decade.



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**INFORMATION NOTE ON THE ECONOMY OF THE
OCCUPIED PALESTINIAN TERRITORY (WEST BANK AND GAZA)**

**Prepared by the Palestine National Authority
Ministry of Economy and Trade***

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I. Preface

On the occasion of the participation of Palestine, for the first time in a United Nations Conference on the Least Developed Countries, the Ministry of Economy and Trade of the Palestine National Authority (PNA) has prepared this Information Note.

The Note is intended to brief the Conference on the particular development challenges facing Palestine at a crucial moment in its history, and the constraints that continue to impair long-term prospects. The Note provides an overview of the economic policy and foreign trade regime of the Palestinian National Authority in the occupied Palestinian territory (West Bank and Gaza Strip), as it evolved between 1994 and 2000. It is introduced by an account of the geographic setting and main population indicators, followed by a review of the aggregate and sectoral economic performance during that period, with reference to the most recent available official Palestinian statistics. Internal and external constraints hampering the economy's sustained development are also examined, in order to identify the main policy issues that need to be addressed in the coming years.

Although the Palestinian economy's performance indicators in recent years rank it within the category of middle-income developing countries, its sustained development is obstructed by structural impediments, many of which are common to Least Developed Countries (LDCs). Most notable in this respect is the poor infrastructure, coupled with a still-weak institutional set-up, and an underdeveloped industrial base. These impediments work against developing the Palestinian economy's productive capacity, which is considered as the bedrock of economic growth and development and the basis for expansion of trade. This is not an attempt to argue in favor of ranking the Palestinian territory within the list of LDCs. Rather, the aim here is to draw attention to the relevance of the problems of LDCs for the Palestinian territory, which is striving to assume an active role at the regional and global levels after surviving long years of occupation.

A special status was granted by the General Assembly of the United Nations, in its resolution 43/178 of 20 December 1988 on Assistance to the Palestinian people. The General Assembly then decided "to extend to the occupied Palestinian territory the same preferential treatment accorded the least developed countries, pending the elimination of the Israeli occupation and the assumption of full control by the Palestinian people over their national economy without external interference".

While adverse developments since September 2000 have led to a major contraction in economic activity and serious disruption to trade and financial flows, they have not affected the legal, regulatory and policy framework adopted by the PNA since 1994. Nor have the serious setbacks experienced in relations with Israel since 2000 diminished the Palestinian National Authority's declared commitment to establishing a rule-based, market-driven economy, in harmony with national interests, global trends and the strategic development potentials of the Palestinian economy.

II. The setting: an emerging state

Palestine is yet to find her place on the world's map as an independent State after long years of conflict and military occupation that forced around 60% of the population to seek refuge in other countries. In 1948, thousands of Palestinians were forced to flee to neighboring Arab countries following the establishment of the State of Israel and the war that ensued. Following the 1967 war, Israel occupied the West Bank and the Gaza Strip and annexed Arab Jerusalem to its territories. The Israeli-Palestinian conflict developed a new dimension in 1987 upon the outbreak of the first Palestinian *intifada*, which paved the way for the 1991 Middle East Peace Conference, for recognition by the two sides of their mutual right to exist and their decision to resolve the conflict through negotiations.

This commitment to peace was translated into a set of confidence building measures in September 1993 upon the signing of the "Declaration of Principles on Interim Self- Government Arrangements between Israel and the PLO, representing the Palestinian People" (DOP). Considered as a focal point of reference for the Palestinian/ Israeli relations, the DOP stipulates an "interim" period that would set the stage for the establishment of an independent Palestinian State in a phased manner postponing to a later stage a final agreement on the borders of the Palestinian State, along with other issues, such as the status of Israeli settlements, the disposition of Jerusalem and the return of Palestinian refugees. The two sides signed a series of transitional agreements, according to which Israeli military forces withdrew from some parts of the occupied territories and the PNA was created to assume the tasks of government in these areas.

The Middle East peace process since 1993 generated high hopes of accelerated economic growth based on a strong belief that the PNA, through its commitment to liberalization, would succeed in providing a more favorable environment for restructuring the economy. The creation of a developed financial sector was expected to induce enough savings leading to financial deepening, especially through attracting sizeable capital inflows from the overseas Palestinian community. Furthermore, local and foreign investors were expected to respond positively and play a major role in strengthening the economy's industrial base and developing the services sector. Optimism in the future of the economy was fuelled by the donor community's commitment to support the PNA's efforts through financial and technical assistance.

Unfortunately, the incomplete implementation of signed agreements and the slow disbursement of donor funds contributed to frustrating these hopes. To this may be added, with a special emphasis, the recurrent closure of Palestine's main border crossings by Israeli authorities for security reasons isolating the country from the rest of the world. Border closure measures are often accompanied by internal closure, whereby Israel seals off the main entrances to Palestinian cities and villages turning these areas into isolated islands.

At present, the area of lands under the PNA jurisdiction is limited to 80% of the Gaza Strip along with the town of Jericho and 3% of the rest of West Bank areas. The economy continues to suffer from the same structural weaknesses that existed during the pre-Oslo period, while the current crisis is draining the economy inducing losses that are estimated to have exceeded \$2.2 billion during the six months period October 2000-March 2001, equivalent to a third of Palestinian

Gross National Income. So strong is the magnitude of these losses that the economy will need at least two years to recover.

Notwithstanding the current conflict, the interim period has entailed irreversible steps towards the establishment of a Palestinian State. Aware of this, the international community has welcomed Palestine's participation in a number of international and regional organizations. At present, Palestine is a full member of the Asian Group of the United Nations, the Global System of Trade Preferences among Developing Countries (GSTP), Group of 77 and China, the League of Arab States (LAS), the Non-Aligned Movement (NAM), the Organization of African Unity (OAU), the Organization of the Islamic Conference (OIC), and the United Nations Economic and Social Commission for Western Asia (UNESCWA). Moreover, Palestine has maintained Observer status with the United Nations and all specialized agencies, in accordance with General Assembly resolutions since 1974.

Furthermore, in 1994, the Palestinian Liberation Organization (PLO) established the PNA that proceeded to develop the three main functions of government, as follows:

A. Legislative

The Palestinian Legislative Council (PLC) is comprised of eighty-eight democratically elected representatives chosen in electoral districts established in accordance with regional population distribution. The current PLC was elected on 20 January 1996 for a five-year term, which has since been renewed for two years. The PLC is vested with the power of enacting legislation and monitoring the performance of the executive. The PLC has twelve standing working committees with the power of legislative review as well as the power of granting confidence in the executive. All meetings of the PLC and of its committees are open to the public.

B. Executive

Executive powers are fully vested in the President of the Palestinian National Authority, elected directly by popular vote. The President is responsible for nominating the Council of Ministers, eighty per cent of whom should be members of the PLC and should be approved by it. Currently the Council of Ministers is comprised of thirty-two Ministers responsible for different portfolios, including eight Ministers of State.

Ten PNA Ministers are concerned directly with economic development and trade-related issues:

- Minister of Economy and Trade
- Minister of Industry
- Minister of Agriculture
- Minister of Supply
- Minister of Finance
- Minister of Labor
- Minister of Transportation
- Minister of Tourism
- Minister of Public Works

Minister of Communications

In addition, a number of other governmental agencies are concerned with economic and trade issues, such as:

- Palestinian Economic Council for Development and Reconstruction;
- Palestinian Environmental Authority;
- Palestinian Industrial Estates and Free Zones Authority;
- Palestinian Monetary Authority, Palestinian Central Bureau for Statistics;
- Palestinian Civil Aviation Authority;
- Gaza Sea Port Authority.

C. Judiciary

There are three levels of courts under PNA jurisdiction. All towns and villages have a Magistrate Court that deals with small claims issues. At the second level there are the District Courts that resolves in cases of larger claims. There are two Districts Courts in the Gaza Strip and one in each of the following cities: Jericho, Nablus, Hebron and Ramallah. There are two High Courts. One in Gaza that reviews appeals from the Districts Courts of Gaza and Jericho, and one in Ramallah that reviews appeals from the rest of District Courts.

III. Geography, Population, Labour and Poverty

A. Location: a land-locked economy

The Palestinian territory of the West Bank and Gaza Strip is located on the western edge of the Asian continent and the eastern extremity of the Mediterranean Sea. It is small in area covering 6170 square kilometers; thereby constituting 23% of the area of the pre-1948 British Mandate Palestine, and about one third of the area of the State of Israel.

The West Bank is 5,800 square kilometers in area, 130 km long and ranges 40 to 65 km in width; it lies between Israel to the West and Jordan to the east and is divided into three main districts with eight sub-districts. These include the northern region, which comprises the sub-districts of Jenin, Tulkarem, and Nablus; the central region encompassing Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region of Hebron. The Gaza Strip covers 365 square kilometers, running at 45 km length and between 5 and 12 km in width; it borders Israel to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West; and is divided into three districts: Northern Gaza, Central Gaza, and Southern Gaza.

The Gaza Strip is mainly coastal plain and sand dune while the West Bank is more diverse, featuring four topographic zones. These include a fertile plain of around 400 sq. km. in the Jordan Valley and the Jordan river; a rocky semi-arid area of 1,500 sq. km. covering the eastern slopes and leading down to the dead sea; the central highlands constituting the largest zone with a total area of 3,500 sq. km. while rising 1000 meters above sea level in places; and the semi-coastal zone consisting of 400 sq. km in the west and north-west.¹

Although the Palestinian territory does have a seacoast of its own, its location renders it effectively a land-locked economy, since any participation in international trade, especially as regards to movement of goods and people, is impossible unless conducted via its immediate neighbors of Jordan, Egypt and Israel. These stand as Palestine's window to the world, with Israel serving mainly as a gateway to the West, while Jordan and Egypt are considered as transit routes to the Gulf States, Europe, the Arab Mashreq and Maghreb. As is the case of other land-locked economies, Palestine's location poses a serious impediment to economic development because trade expansion is conditioned by the neighboring countries' readiness to grant the Palestinian industries access to their transport facilities. At present, such an access is hampered by complex security, customs and overland transport procedures.

B. Population: a young nation

The Palestinian population of the West Bank and Gaza Strip is estimated to have reached 3.15 million in 2000, approximately 36% of who live in the Gaza Strip. It is estimated that over 5 million Palestinians live outside the West Bank and Gaza Strip, including those living in Israel.

The youth represent the largest percentage of the population with 47% below the age of 15 years in 1999. The age group (0-4) constitutes the second largest proportion (19%), while the age

group (60 and above) constitutes 3.4 percent of the population only (Table I.1). Refugees, who fled to the West Bank and Gaza following the 1948 war, make up a large percentage of the population in Gaza representing 65% of the population, as compared to 26% in the West Bank. Most of the refugees live in over crowded camps with substandard housing and sanitation conditions representing the disadvantaged stratum in Palestine.

The annual rate of population growth is estimated to have reached 5.4% in 2000, however present health indicators signify that population growth is likely to decrease from its 1997 level of 3.97% to 2.21% in 2025. These include fertility rate which stood at 5.93 in 1999 (5.52 in the West Bank and 6.81 in Gaza); infant mortality rate estimated at 25.5 per 1000 (24.4 in the West Bank and 27.3 in Gaza); under five mortality rate of 28.7 per 1000 (27.2 in the West Bank and 31.2 in Gaza); and life expectancy at birth estimated at 69.9 years for males and 73 years for females in 1997. Population density differs markedly between the West Bank and Gaza standing at 342 person per sq. km. in the West Bank, whereas in the Gaza Strip the comparable figure is 2,933 (Table I.2).

C. Labour: dependent on external markets

The economically active population (labor force) was estimated at 42% of total population by the end of 2000. Male participation stood at 71% in 1999 as compared to 12% female participation. labour force participation was highest for the age group 35-44 years reaching 57%, with males accounting for 92% of participants within this category. labour force participation for the age group 25-34 years ranked second (55%) with males accounting for 91% of participants. A review of labour force participation by region reveals a much lower participation rate in Gaza (38%) as compared to the West Bank (43%) in 1999.

The full employment rate stood at 83% in 1999 and was higher within the female category at 84%. Overall underemployment rate stood at 12%, and was higher within the female working force at 14%. The West Bank absorbed 53% of the employed working force, while Gaza absorbed 24%, with Israel and the Israeli settlements employing 23% of the Palestinian labour force (Table I.3).

Overall median daily wage is NIS 69 (NIS 60 in the West Bank, NIS 46 in Gaza, and NIS 100 in Israel and settlements; NIS 1= US\$ 0.24), with discrepancy between the wage of male employees and female employees in the West Bank (NIS 61 and NIS 50, respectively) and in Gaza (NIS 46 for males and NIS 50 for females). Discrepancy in wages is more pronounced across main activities with the median daily wage for those working in agriculture reaching NIS 50 in Gaza and NIS 30 in the West Bank as compared to NIS 70 in Israel and Israeli settlements. The highest wage for employees in the West Bank is provided by the construction sub-sector (NIS 70), while services and other branches provided the highest wages in Gaza (NIS 50) as opposed to transport, storage and communication in Israel and Israeli settlements, NIS 108, (Table I.4).

Since 1967, the Palestinian economy grew to become highly dependent on external labour markets for the employment of a growing part of its working force. Fluctuations in access to those markets have a significant disruptive effect on the overall economy, as experienced most recently in 1996. The employment situation is progressively improving as domestic absorptive

capacity grows, however the economy still generates a high rate of unemployment, estimated at 21% of the labour force in 1997. The average annual unemployment rate decreased to 16% in 1998, the lowest since 1995, and had reached 12% by mid-2000. This decline comes despite demographic pressures with a labour force growing at around 7% per year, thereby proving the economy's continued ability to absorb its labour force.

D. Poverty: modest but structural

During the period 1996-1998, the proportion of the population living below the poverty line decreased by 3.5% from 26.9% to 23.2%. However, poverty affected 23.2% of the population in 1998. This figure masks significant differences between the West Bank and Gaza with 37% of the population in Gaza living in poverty as compared to 15% in the West Bank. Poverty rates differ markedly between female and male-headed households (26% and 20%, respectively) though female-headed houses representing 11% of the poor stratum only.

As is the case of many developing countries, poverty rates increase consistently among families with more than two children. Households with the least incidence of poverty (13%) are those with 1-2 children, while those with 7-8 children witness higher incidence of poverty (31%) as opposed to 34% for households with at least 9 children (Table I.7). On the other hand, poverty rates are inversely related with the head of the household's level of education, ranging from 28% for those with less than elementary education to 7% for those with a university degree (Table I.8).

Such high poverty rates are in contrast to GNI per capita indicators that registered an 11% increase during the period 1996-98, thereby reflecting a number of structural weaknesses within the economy. Most notable is a limited capacity to create enough jobs to absorb its labour force as indicated by the modest growth rates of GDP per capita at around 2% during the two years. The high poverty rates are also attributed to the high prices Palestinians face given the economy's integration with its Israeli counterpart, with wage the discrepancy between the two economies increasing the incidence of poverty among the Palestinians.

IV. Economic performance until 2000: chronic vulnerability to external shocks

A. Aggregate performance

In the period since 1994, the Palestinian economy has commenced a process of transformation and modernization. The PNA has been engaged in a process of re-construction and development aimed to upgrade infrastructure and improve the efficiency and productivity of the economy. However, the Palestinian economy remains predominantly based on traditional activities, with preponderance of small cottage industries and sole proprietorship undertakings. This section provides an account of economic developments until 2000, based primarily on statistical series published by the Palestinian Central Bureau of Statistics.

The Palestinian economy experienced a severe contraction in the late 1980's and early nineties, only to revive as of 1992. Following the setbacks of 1996-1997 accompanied by sharp falls in aggregate and per capita income levels, the economic situation has somewhat stabilized. By 1999, GDP of the West Bank and Gaza Strip stood at US\$4.5 billion and GNP at US\$5.2 billion, with a per capita GDP of US\$1,614 and per capita GNP of US\$1,782. Since 1994, GDP has constituted less than 15% of GNP, compared to historic levels of over 25%. Net factor income from abroad in 1997 was around US\$600 million, while net transfers in that year equaled US\$407 million, and gross national disposable income was US\$4,557 million. GDP in 1998 is estimated to have reached over US\$3,660 million (Table II.1).

The Palestinian economy grew in real terms by 1% in 1997, and the growth rate for 1998 has been estimated at over 2%. In 1999 and 2000, GDP growth was projected at rates surpassing 6% in current prices. However, these rates are still below historic performance and demonstrated potentials for economic growth, and well below population growth rates. With increasing levels of domestic and foreign investment, and as an outcome of the market oriented policies being implemented by the PNA, the economy had begun by 2000 to demonstrate its potential for even stronger growth rates in the future. Performance in 1999-2000 is reminiscent of 1992-1993 and pre-1988 expansion periods, which were usually followed by steep decline, highlighting the Palestinian economy's vulnerability to external pressures and shocks.

In 2000, gross fixed capital formation accounted for 46% of GDP. Construction, mainly in housing, accounts for 80% of total private investment, while private productive activities absorb the balance. The low level of investment in the productive sectors reflects a combination of factors, including uncertainty about regional conditions and insufficient credit facilities, notwithstanding the dramatic expansion of the banking system in recent years. Private consumption expenditure in recent years has been equivalent to around 96% of GDP and government consumption expenditure around 23% of GDP. Imports of goods and services absorbed 83% of GDP, and the Palestinian trade deficit (goods and services) was 65% of GDP in 1997, though this ratio declined somewhat in 1998-1999.

Consumer price increases have moderated in the last several years increasing by 2.5% in average monthly basis during 1999. The general inflation rate, which averaged 12% during the 1993-

1995 period, declined to 7.6% in 1997 and fell to 5.5% by December 1999. Price trends in the Palestinian economy are highly sensitive to external events and the economy is open to such effects through the Israeli Shekel and the Jordanian Dinar, both of which the PNA has adopted as currencies in circulation during the interim period.

B. Sectoral structure

1. Agriculture

Until the late 1980s, the agricultural sector's contribution to Palestinian GDP averaged over 30%. This share has experienced a dramatic reduction during the past decade. In 1990 agriculture still represented 35% of GDP, but declined steadily to an average of around 12% in 1994-1996 and fell further to an historic low of 7% by 2000. Cultivated land in the West Bank covers around 33% of total land, while in Gaza Strip it covers approximately 50% of the area. The agricultural sector accounted for around 14% of the employed work force in 2000, though the potentials of Palestinian agriculture have been constrained by restrictive access to land and water.

2. Industry

The level of industrialization in the West Bank and Gaza was historically low, under 10%. Since 1994, available data has re-estimated (upwards) the annual average share of industry in GDP at around 16% in 2000. In addition to the significant branch of construction-related industries, the principal industrial activities are food processing, plastics, soap, pharmaceuticals, clothing and shoes. The industrial sector employs 9% of the work force in the West Bank and 14% in the Gaza Strip. About 35% of total industrial employment is in the textile, clothing and leather sectors.

3. Services

The Palestinian economy is dominated by services, contributing 54% of GDP in 2000. Wholesale, retail trade and transport account for a substantial portion of service activities (19% of GDP), though the share of public services is also high (at 12% of GDP), and real estate services account for a similar share of GDP (11%). Public administration and defense account for less than 10% of GDP. Construction has traditionally played an important role in the Palestinian economy, contributing over 10% of GDP in previous decades, but has been re-estimated since 1994 at around 10% of GDP.

In 1999, services represented the main field of employment (absorbing 28% of the employed labour force), followed by construction (22%). Services were the main field of employment for the female working force, accommodating 46% of this category, followed by agriculture (providing jobs for 32% of females).

There has been a marked growth in the banking industry, and financial intermediation services account for around 3% of GDP. The number of banks increased from 2 in 1993 to 23 in 1999 with a total of 114 branches in the West Bank and Gaza Strip. Assets and deposits have also

surged (see below). The insurance industry has also expanded over the past several years. It is dominated by auto insurance, which is not a source of long-term investment. The PNA Controller of Insurance at the Ministry of Finance is entrusted with developing the requisite legal and regulatory framework and supervises the insurance sector and licenses insurers.

The PNA has recognized the importance of advanced telecommunications networks and moved promptly to develop its infrastructure. Under arrangements with the PNA, the privately owned Palestine Telecommunication Company (PALTEL) is developing this sector on a sound commercial basis, to ensure wide domestic coverage and international connections with modern and diversified facilities. Palestine has been accorded its separate international dialing gateway (970) and has been assigned an independent Internet domain (ps).

Given Palestine's endowment of religious and archaeological sites, tourism remains a sector with high growth potential. This growth has been hampered by the prevailing uncertain conditions in the region and the weak support infrastructure for tourism in the West Bank and Gaza Strip. Nevertheless, some important developments have been achieved in the hotel, travel agency and tourism-related transport and restaurant sectors as a result of domestic private sector investment and some foreign direct investment.

C. External trade and balance of payments

The Palestinian economy has a high degree of exposure to foreign trade, with a ratio of total merchandise trade to GDP at 80% at the end of 1998.² This trade openness is accompanied by an import bias manifested in the rising ratio of (merchandise) imports from below 40% in 1990 to approximately 57% in 1998, while the export ratio, which was above 40% in 1980, declined to stagnate at a historically low level of about 10% since 1990.

In 1998, imports amounted to an estimated US\$2,375 billion, while exports did not exceed US\$495 million. Although manufactured investment goods, utilized in infrastructure projects, accounted for 36% of the value of total imports in 1998 (Table II.2), the growing deficit is mainly attributed to the economy's heavy reliance on imports to meet local demand reflecting unrestrained consumption and structural weaknesses within the economy. This has had a negative impact on the trade balance, which manifests a persistent deficit, growing from US\$1,658 billion in 1996 to US\$1,980 billion in 1998. Compared to 1990, trade deficit has grown over 300% from US\$ 600 million. Consequently, the ratio of trade deficit to GDP has soared up to well over 50% since 1995 from 27% in 1990.³

Palestinian trade is heavily concentrated with one partner, namely Israel, accounting for nearly 80% of total value of trade in 1998. A wide gap separates value of trade with Israel and Jordan, Palestine's second trade partner that accounted for 2.4% of the total value of Palestinian trade (Table II.3). A breakdown of trade flows reveals a positive shift with the years 1997 and 1998 witnessing growing imports from the rest of the world representing 29% of total imports in 1998 from 12% in 1996. This development reduced Israel's share of the total value of Palestinian imports from 86% in 1996 to 69% in 1998 (Table II.4). However, on the export side, Israel remains as the main trade partner accounting for 95% of total exports in 1998 compared to 85%

in 1990. Exports to the rest of the world have been declining sharply at levels of US\$ 1-4 million annually since 1993⁴, thereby accounting for less than 0.5% of total exports in 1998.⁵

It would be misleading to attribute such a performance to limited niche markets for Palestinian produce since these represent a significant share of total exports. A review of the commodity composition of the trade ranks manufactured goods as the largest category of exports with a 42% share of the total value of exports in 1998. Food and live animals ranked as the second largest category of exports (16%), followed by miscellaneous manufactured articles (15.6%), beverages and tobacco, along with chemicals and related products (6% each) and crude materials (4%). Exports of vegetables and fruit reached US\$35 million, representing 8% of total exports followed by furniture (US\$24 million), iron and steel (US\$18 million) and footwear (US\$19 million). Meanwhile, stone and marble continue to be the single most significant Palestinian export worth over US\$100 million in 1998.

At the same time, manufactured goods also ranked as the largest category of imports (23%), followed by food and live animals (19%), mineral fuels lubricants (17%) and machinery and transport equipment (16%). Other major import items include miscellaneous manufactures (7%), chemicals and related products (6%) and beverages and tobacco (4%).

The current account balance, which was historically in surplus, has acquired a deficit position since 1996, when it was approximately one quarter of GDP, or around US\$793 million. By 1998, the current account deficit had reached US\$1,256. Exports, net factor income from work in Israel and current transfers from Palestinian expatriates and other non-official sources help to finance the huge import bill. These items, however, are insufficient to balance the current account deficit, which is partially offset by official donor finance. The capital account consists almost exclusively of capital transfers, i.e. unrequited transfers related to capital goods. In 1994, a surplus amounting to US\$822 million was recorded in this account, whereby this account had acquired a deficit position of over US\$700 million by 1998 (Table II.5).

D. Constraints on Economic Performance

Although the Palestinian economy's main performance indicators rank it within the category of middle-income developing countries, its sustained development is obstructed by structural impediments that are common to Least Developed Countries (LDCs). In addition to the major factor of the impact of prolonged occupation and strife, most notable is Palestine's poor infrastructure that is coupled with a weak institutional set-up, and an underdeveloped industrial base. Just as the case of the LDCs, these impediments work against developing the Palestinian economy's productive capacity. Hence, the relevance of these countries' experiences for the Palestinian economy that is striving to assume a distinct role in line with global economic trends and regional specificities.

Moreover, UNCTAD observations on the economic performance of land-locked states are of clear relevance to the Palestinian economy in that the lack of access to world markets is "aggravated by prohibitive transport costs associated with conditions of inadequate infrastructure, imbalance of trade, inefficient transport organization, poor utilization of assets and

weak managerial, procedural, regulatory and institutional systems posing serious constraints on the trade and economic development".⁶

1. Internal constraints

a) Political turmoil and uncertainty

The importunate deadlocks in the political process and delayed implementation of signed agreements have resulted in prolonging the interim period increasing the level of uncertainty with regards to the future. The European Union (EU), which is actively involved in the support of the PNA's development efforts, emphasizes the difficulty of proceeding with planned activities under such circumstances:⁷

"The present situation of the Palestinian Territories is complex: it is a transitory situation from a state of war and revolution, under long and varied foreign rule, towards a state of peace and the rule of law. Indeed, the optimism that permeated at the beginning of the peace process was not translated into increased investments and exports, as investors are simply discouraged by the increasing level of economic and political risks. The high incidence of border closures by the Israeli Authorities has been inflating these risks inducing direct economic losses in the form of declining exports and lost job opportunities in Israel."

The total number of days of imposed closures during the period 1993-1999 reached 469 days, while the estimated induced losses owing to border closures for the period 1993-1996 were US\$ 2.8 billion which is close to the GDP for an entire year and to the amount of aid received from donor countries within this period.

Aside from draining the economy, political turmoil has been diverting the PNA's attention away from policy making to emergency needs generated by deteriorating economic conditions. Operating under such circumstances, the PNA has not been able to develop its institutions as planned; "its ministries and administrations are still in their formative stages and therefore do not have clear and definitive administrative procedures and organizational structures", while the economy continues to operate within the absence of well orchestrated financial and legal systems, notes the same report by the EU. The same argument applies to donor funds that are persistently re-channeled for financing emergency programmes aimed at creating new jobs for the unemployed. In addition, there have been repeated delays in the implementation of major development projects, especially in the field of infrastructure as is the case of Gaza Sea Port that has been on the PNA's agenda since the signing of the peace accords in 1993, and even before.

b) Trade Regime

Of particular relevance to Palestinian economic and trade policy is the "Protocol on Economic Relations between the Government of Israel and the PLO representing the Palestinian people", signed in Paris on 29 April 1994. The Protocol, also known as the "Paris Protocol", is intended to lay the groundwork for "strengthening the Palestinian economic base and for the PNA to exercise the right of economic decision-making in accordance with its own development plan and priorities". This framework has enabled the PNA to implement its separate economic and

trade policy throughout the territory of the West Bank and Gaza Strip under its jurisdiction. The framework has also provided the basis for organizing trade relations between Israel and Palestine stipulating a trade regime that is something of a mixture between a free trade area and a customs union.

Although the regime allowed the PNA to reap some benefits, its continued enforcement beyond the five-year interim period it was originally conceived for poses increasing obstacles to the development of the Palestinian trade sector, perpetuates distortive policies on the economy and encourages a skewed integration with the much more advanced Israeli economy. This section reviews the current Palestinian trade regime and outlines its built-in limitations that are built in it.

- **Import regime**

The current Palestinian customs duties are a pledge to the Israeli tariff schedule. Under the terms of Paris Protocol, the PNA agreed not to set its customs duties below those of Israel except for limited quantities of commodities from specified sources identified in List A-1 and List A-2 and on imports with no restrictions on quantities in List B. This means that the PNA can determine its own rates of customs duties, purchase tax, levies, excise and other charges on imports included in these lists within the specific quantities, while products not on Lists A-1, A-2 or B, or those on the first two lists but exceeding the quotas will be subject to a minimum of Israeli rates. However, the PNA may decide on any upward charges.

When first negotiated, List A-1 contained some 24 goods whose origin, or at least 30% of their value added stems from an Arab State. Of these, 11 items have to come exclusively from either Egypt or Jordan. List A-2 contains mostly food-related items, which the PNA has the right to import from anywhere in the world, keeping in mind that eleven items on list A-2 also appear on list A-1. List B includes a large number of items needed for investment and development. In mid-2000 the scope of the Lists was expanded to include 1,400 additional tariff line items.

For other imports, such as automobiles and petroleum products, special import regime and standards are adopted. These allow the PNA to impose its own rate of customs and purchase taxes on motor vehicles imported to, and registered with, the PNA. The PNA is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israeli committee, and is free to determine the price of petrol derivatives, except gasoline, as long as the price derivatives does not exceed 15% of the consumer price in Israel.

The PNA has chosen to adopt the Israeli import classification, evaluation, procedures, licensing and standards policy, which is applicable to all Palestinian imports, except for the quantities agreed upon under Lists A1 and A2. The clearance of customs revenues and fees levied on imports are based on the principle of final destination. This means that collected tax revenues should be allocated to the PNA, even if Israeli importers carried out the importation, when the final destination explicitly stated in the import documentation is a corporation registered by the PNA and conducting business activity in areas under its jurisdiction.

The PNA has not introduced to date, any change to the prevailing custom duties on non-listed goods and therefore the Israeli tariff schedule is being applied to most PNA imports. A direct

benefit that the PNA can reap from the existing trade regime is the opportunity to exploit bilateral trade agreements between Israel and other countries since they apply to the PNA. Moreover, adopting the Israeli import classification and standards means that the valuation of all PNA imports is based on the GATT 1994 agreement, while classification of goods for customs purposes is in line with the principles of the Harmonized Commodity Description and Coding System (HS).

• Export regime

The Palestinian Ministry of Economy and Trade defines and implements export policy and procedures. No subsidies are available for exporters, nor does the PNA provide subsidies in any productive or service sector. There are neither export restrictions nor licenses required for exporting. When applicable, exporters must submit a certificate of origin obtained from the local Chamber of Commerce. Some products require prior authorization.

c) Built in limitations

- The PNA cannot give preferential or duty-free treatment to imports from most countries, except Jordan and Egypt.
- The Protocol does not address the wide range of subsidies and other non-tariff barriers that benefit some Israeli sectors and products leaving Palestinian industry and agriculture at a disadvantage. Although support measures are gradually being phased out as Israeli trade is liberalized, they continue to operate in some areas with a bearing on the Palestinian similar productive branches.
- While the Protocol calls for free movement of goods between Israel and Palestinian self-rule areas, such movement is subject to the "security measures", thereby constraining the quantities of Palestinian goods exported to Israel, interrupting the smooth flow of imports and of course preventing Palestinian labour flows to Israel.⁸
- The Protocol limits the PNA's ability to generate revenues since the possibility of the PNA's levying higher tariff (or indirect taxation) rates than Israel is effectively constrained by the absence of provisions preventing the entry of the same goods via Israel, subject to lower rates and thus at lower prices.
- The re-export clause (Article III-15) facilitates fiscal leakage as it does not ensure the PNA's receipt of customs revenues on goods sold in the West Bank and Gaza Strip by Israelis that are not of Israeli origin, but imported from outside Israel. In theory, customs revenues generated from these goods should accrue to the PNA since they are classified as non-Israeli or Israeli re-exports. However, the PNA's inability to adequately monitor imports from Israel has resulted in a fiscal leakage between US\$166 million and US\$275 million a year during the period from 1994 to 1996.⁹

d) Financial Constraints

The Palestinian private economy suffers from a financial constraint with a saving-investment gap constituting 18% of GNI in 1998. The banking sector provides a limited range of services that

are coupled with conservative lending policies, while the capital market is thin on the ground and is inaccessible to the majority of existing enterprises.

- **Financial intermediation**

The Palestinian Monetary Authority (PMA) regulates the Palestinian banking sector, as defined under the terms of Paris Protocol. The PMA's mandate during the interim period empowers it with authorities similar to those enjoyed by most central banks designating the PMA as the supervisor and controller of the financial system, and the banker of the PNA and commercial banks. The PMA is thus entrusted with the job of licensing all banks operating in the Palestinian areas, holding their reserves, and regulating their operations with regard to solvency, liquidity and stability. This includes operating a discount window to advance loans to commercial banks, and acting as a lender of last resort. Moreover, the PMA acts as the PNA's official economic and financial advisor and sole financial agent, both locally and internationally. It also holds and manages the foreign currency reserves of all public sector entities.

However, the PMA's practical power is limited by the absence of a national currency with the Jordanian Dinar (JD), the New Israeli Shekel (NIS), and the US dollar (US\$) representing the main currencies circulating in the economy. Consequently, the PMA's ability to ensure the system's safety and stability is undermined since it cannot act as lender of last resort nor can it offer banks discount window lending. The PMA's power is further limited by the absence of preventive prudential regulations that are yet to be enacted including ratios on capital adequacy, liquidity requirements, policies on large exposure to a single customer and currency risk. At present, the PMA regulates the system through a set of discrete resolutions on the minimum capital requirements, liquidity ratios, in addition to reserve and licensing requirements.

The banking sector registered an impressive deposit mobilization record in 1996 following the establishment of the PMA with total deposits growing by around 700% from US\$ 219 million in 1993 to US\$ 1,707 billion in 1996, excluding deposits of non-residents (US\$3,85 million). This was mainly attributed to the opening of new banks encouraging residents to transfer their deposits from abroad into the local banking system. Deposit mobilization continued to increase, albeit at a slow rate, reflecting economic difficulties. Total deposits of residents grew by around 16% in 1998 compared to 1997 and by 18% in 1999 in relation to 1998 to reach US\$ 2,832 billion, of which around 70% were generated from term deposits or saving accounts since banks do not issue negotiable securities.

The overall bank credit to the private sector grew by 32% in 1999 as compared to 1998 to stand at US\$ 613.8 million, while the overall lending-to-deposit ratio reached 35% up from 31 percent in 1998. Major banks pursue a relatively conservative lending policy as indicated by the low share of total loans to total assets (26%) and total deposits (29%) in 1999. Loans show a relatively short-term credit structure distributed among overdrafts (53%), which have a repayment period of less than one year, and loans with a repayment period of 1-3 years. Commerce activities accounted for 43% of outstanding bank credit in 1999, followed by construction (20%) and manufacturing and mining (17%), reflecting a concentration on financing enterprises' working capital at the best.

Such prudent lending policies can be explained by the high level of political risks perceived by the banks, especially as they continue to operate within the lack of a clear set of commercial laws. Long-term loans are also impeded by a shortage of acceptable collateral resulting from the lack of proper land registration, which could establish property rights clearly, and by the difficulties in estimating accurately the standing of companies and individuals. The salient features of the borrowing enterprise undermine their creditworthiness, thereby impeding the development of the economy's industrial base through boosting the level of capitalization.

• The Palestinian Security Exchange (PSE)

Established in 1997, the Palestinian Security Exchange (PSE) represents the Palestinian capital market with a well-established institutional set-up in terms of physical infrastructure, utilized technology and the level of managerial skills. It has competitive listing requirements with a view to attracting foreign investors and facilitating the repatriation of Palestine's dispersed wealth in the Diaspora. In 2000, the PSE market capitalization stood at 766 million with 25 listed companies, while the value of total trading did not exceed US\$189 million. The unfavorable investment environment, the lack of clear commercial laws and the limited number of enterprises that can meet the listing requirements help to explain this performance.

PSE: Listing Requirements	
•	At least 50% of the subscribed capital must be paid-up.
•	Subscribed capital must exceed US\$ 750,000.
•	The number of outstanding common shares must exceed 100,000.
•	The company must have at least 100 shareholders.
•	At least 25% of common stock must be offered to the public through a public offering of shares.

Source: Palestinian Security Exchange (PSE)

• Dependency on Foreign Aid

Operating under such circumstances, the financial market has little to offer to public sector as reflected by the latter's insignificant share of total outstanding credit, not exceeding 6% in 1999 (US\$ 62 million). Since the government cannot issue public securities and is confronted with a limited tax base, it is left with no choice but to rely heavily on donor assistance to finance its development projects. Accordingly, the PNA's development plan for the period 1999-2003 "The Palestinian Development Plan 1999-2003" will be almost wholly financed by the donor community, which is intended as a source of US\$ 4.3 billion (or 93%) of the total budget. The rest of the budget will be covered by the PNA (US\$ 141 million) and through concessional borrowing (US\$ 200 million).

Although the proportion of PNA debt to GDP is low compared to other countries (at 14% in 1998), it signifies a new challenge to the government given the short period during which external debt has been accumulated. Indeed, at almost SUS 175 per capita, aid to the PNA represents one of the highest levels of per capita official development assistance in the world ranking third after Israel (SUS 230- 240 per capita) and Bosnia and Herzegovina (SUS 190).

e) Weak Infrastructure

The long years of occupation have left Palestine with an impoverished physical infrastructure that is inadequate to ensure the needed geographic continuity among the Palestinian areas and their integration with regional and global markets.

• Road networks

Palestine's road network is 4900 km. long covering a geographic area of around 6000 square kilometers, of which 2500 kilometers are external roads that connect major cities with each other and with border crossings. All main roads consist of two lanes with the exception of around 13 kilometers of 4-lane divided roads around Jerusalem. The width of the main roads ranges between 4 and 7 meters, while the width of the regional roads ranges between 3 and 6 meters and the local roads are 3 meters.

The network is in poor shape, with 56% of the roads requiring rehabilitation, and is characterized by a low level of services; the number of meters of paved roads per 100 people does not exceed 80 compared to 266 meters in Israel (see Table).¹⁰ This is only to be expected since the Israeli occupation investments in this sector were minimal and aimed at ensuring geographic continuity between Israeli settlements and Israel.

• Airports

At present, Palestine has only one airport, "Gaza International Airport", which is located in the southern part of Gaza with plans to establish a second one in the West Bank. The airport, which commenced operations in November 1998, has one runway - 3080m length and 60m width and is designed according to ICAO international standards. Accordingly, it is capable of receiving most types of aircraft including the wide-bodied jumbo jet. So far, the airport has been utilized for facilitating the transport of passengers with the *Palestinian Airlines* operating regular flights to Amman, Cairo and Larnaca.

• Sea Ports

The PNA is in the process of establishing a seaport of its own five kilometers from the southern border of the Gaza Strip to provide international access to Palestinian traders, particularly to industrial estates in the immediate vicinity. The deep-water seaport, "Gaza Sea Port", will also serve the West Bank and, if economically feasible, Jordan along with other parts of the world, while future plans include the establishment of strategic links with the neighboring ports of Egypt, Ashdod, Beirut and Cyprus.

The PNA decided to proceed with the construction works that are financed by a number of European countries, in three phases in order to avoid financing pressures. Phase One will include the construction of a dam, almost perpendicular to the shore line, with a berth of 600 meter in deep water and an additional petroleum products berth. By the end of the first phase, the port will be able to receive small container vessels with a maximum size of 15,000 DWT, however equipment will be elementary including mobile cranes. Phase Two will entail the construction of

a multi-purpose container terminal with the ability to handle much larger vessels. During the third phase, the breakwater will be expanded and a new multi-purpose terminal will be constructed in the center of the harbor basin to handle larger vessels (50,000 to 70,000 DWT) that would enable the port to function as a major transshipment facility.¹¹

Site preparation work was to have begun in November 1999 and was scheduled to be completed in 2001. However, construction works were suspended in September 2000 and Israeli authorities have not permitted construction to resume since.

- **Electricity**

Palestine relies on Israel for obtaining electricity power lacking an electrical grid of its own. About 140 villages use small diesel generators given the absence of electrical services and when available these services are interrupted being far from the Israeli electrical grids. Electrical projects in Palestine operate under poor conditions given the lack of proper facilities and technical expertise. Consequently, they suffer from over due maintenance, inducing losses of 20% or more of electricity power, and have inadequate consumer tariffs.

f) Natural Resource Constraints

The scarcity of natural resources needed for productive resources development is evident in limited land resources, gas, and water resources as well as usable mineral deposits. The areas of land and water resources available to the Palestinians during the interim period are limited, notwithstanding a transitional agreement to increase water quotas allocated to Palestinian areas. Moreover, Israel has not fulfilled its commitment to allocate 28.6 MCM of water to the Palestinians per year during the interim period, though Palestine's water needs are estimated at 70-80 MCM per year. Natural gas available to Palestinian industries is also limited with Israel standing as the main supplier, since the PNA is yet to diversify sources of supply to ensure a better fulfillment of domestic needs at lower costs.

g) Limited Capacity to Ensure Sustained Development

The Palestinian economy suffers from a "chronic incapacity to create enough jobs for its labour force, generate savings for financing investments, and produce enough exports to pay for imports". During the period 1997-1998, 43,000 new jobs were created in the West Bank and the Gaza Strip, of which 13,000 jobs were in the PNA. Though the private sector continued to provide the largest share of employment, its importance declined in 1997-1998, registering a 10% increase as compared to 17% and 63% in the public sector and Israel, respectively.¹² This is mainly attributed to the limited level of domestic and foreign direct investment, given the high degree of risks generated by the absence of political stability.

In 1998, private investment was estimated to have reached US\$476 million, accounting for 13% of GDP, while gross capital formation represented 35% of GDP up from 29% in 1994. Private investment is heavily concentrated in construction activity, however, with residential construction accounting for 85% of total planned construction areas for the period QI-QIII 1999.

Planned business construction areas increased by 6.8% only in relation to the same period in 1998 as compared to 16% growth in planned residential construction.

In 1999, the number of new registered companies grew by 38%. However, this does not necessarily reflect an improvement in private investment activities given the time lag separating between the company's registration and establishment. More important still, is the minimal capital investment and employment that continued to characterize business investments by small private companies that accounted for 54% of total new registered companies. Approved investment projects by the Palestinian authorities in 1999 (worth US\$298 million) do not offer much to address the unemployment issue, despite the 85% increase in their value compared to 1998; once executed, these would create only around 3,000 new jobs.

In such circumstances, the economy continues to rely on the export of its labour services (mainly) to Israel for generating income. Palestinians working in Israel increased from 76,000 in 1997 to 120,000 officially registered worker in 2000, equivalent to 20% of the overall participating labour force. While this represents the same absolute ceiling reached in the pre-1994 era, this number is of course represents smaller proportion of employment (and of national income) than was reached in the occupation period.

While the low level of investment stands as the main reason behind the economy's limited capacity to absorb the labour force, its weak industrial base impedes export expansion being dominated by cottage industries with weak technological capabilities. This is especially the case of manufacturing industries as indicated by their low exports to sales ratio. The total number of manufacturing establishments in 1997 was approximately 14,813, equivalent to 19% of total number of non-agricultural establishments. These are dominated by cottage industries with only 5% employing more than 50 workers as opposed to 90% employing less than 5 workers. The industries are mainly family owned with high sole proprietorship and low average proportion of administrative employees, reflecting informal managerial structures. They have a low level of productivity, measured by average productivity per labor, given their underdeveloped production processes, as indicated by the low capital to labour ratio.

This is mainly attributed to the distorting subcontracting arrangements between the Palestinian and Israeli industries, which delegate labour intensive activities to the Palestinian industries to reap the benefits of lower labour costs. The industries are unable to modernize their production processes, however, as reflected by their low level of capitalization, since they suffer from a paucity of retained earnings (given their low level of profitability) and from the lack of external sources of finance (see section). Moreover, they lack the incentive to invest denied proper access to regional and international markets. The service enterprises, that are essential for improving the industrial sector's performance, do not fair better, employing less than 5 persons per establishment on average, with low capital to labour ratios and low productivity levels.

2. External Constraints

a) Limited Foreign Investment Flows

Despite the wide range of incentives and privileges offered to foreign investors (see below), foreign direct investment (FDI) remains limited, mainly concentrated in the construction, real estate and tourism (hotel) sector, as well as franchising arrangements with local producers or distributors. In the absence of comprehensive aggregate statistics on the subject, some indicators are available, such as the modest number of foreign firms operating in Palestine. The PCBS industrial survey indicates that foreign companies share the salient features of local companies, characterized by minimal capital and employment. This is to be expected given the high degree of economic and political risks engendered by political turmoil, adverse trade environment, the limited range of services offered by financial institutions and the still-evolving legal framework. The persistent delays in implementing public investment infrastructure projects are another factor discouraging foreign companies to undertake capital-intensive projects.

Private investment flows were slated to experience substantial growth following the Israel-Palestine accords since 1993. The international assistance programme, and the ensuing boost it gave to Palestinian public investment projects for the rehabilitation and development of physical and institutional infrastructures, created an important enabling environment and impetus to private investors. Motivated by strong profit anticipations, and encouraged by major political developments, hundreds of expatriate individual and corporate investors, both Palestinian and foreign, have been allured into visiting the Palestinian territory since 1994 in search of investment opportunities. The influx of visiting investors cuts across a wide range of nationalities, but many were diaspora Palestinians, eager to examine the opportunities for re-establishing themselves and their business in the West Bank and Gaza Strip.

Despite the increasing investment activity since 1994, the volume of foreign private investment actually deployed in the Palestinian territory during the interim period was substantially less than expected. Traditional forms of domestic investment, especially housing and real estate development, recovered and even accelerated since 1994, but the investment climate took several years to become adequately clear or secure to permit commencement of full-fledged operations by new investors in non-housing sectors. While generally optimistic about the medium and long-terms, investors continued throughout the period to perceive risks inherent to the political security and regulatory framework, which demanded careful planning and gradual execution of investment ventures.

The influx of business encouraged by positive developments in the peace process covers a range of enterprises, such as banks, insurance, construction contractors and general trading companies. An early and prominent example was a leading investment firm established in October 1993 under the name of Palestine Development and Investment Limited (PADICO). Owners consist of a conglomerate of individual and corporate diaspora Palestinian investors, mainly based in Jordan and led by the Arab Bank Ltd. The initial share capital of PADICO is \$200 million, to be expanded at a later date to one billion dollars. PADICO envisaged managing a total project portfolio of \$1.4 billion dollars by the end of the decade.

In order to attain maximum efficiency in its operations, PADICO established three autonomous enterprises catering for construction (based in Gaza), tourism (based in Jerusalem) and industrial projects (based in Nablus). Each is managed by its own board of directors and its own share holders, with PADICO as the major partner represented on respective boards in proportion to its

subscribed capital. All three firms and the holding company have managed to establish efficient working relations with the Palestinian Authority. Subsequently, PADICO negotiated contracts with the PNA in fields as diverse as electricity generation, telecommunications and the construction and management of export-processing zones, as well as planning and management of the Nablus security exchange. The PADICO corporate model has been duplicated by a number of holding companies, which have been established during the past two years outside the territory. Such investment firms are owned and financed largely by expatriate Palestinian investors, with tangible input and involvement of the domestic business community. Like PADICO, these firms look forward to playing an important role in industry, construction, tourism and utilities, but they have not yet commenced actual business operations.

In the area of international trade, most foreign investment activities have focused on acquiring and establishing agency rights for transnational corporations, which perceive promising market potentials in the Palestinian territory. This has included, for example, some automobile manufacturing firms, mainly German, French, Korean and Japanese. Trading activities have also included more undocumented forms of business in some areas related to public sector projects.

A notable example of locally financed investment initiatives designed to complement and diversify the emerging corporate structure in the territory is found in a holding company established by a group of West Bank investors. The Palestine Investment and Development Company (PIDCO, not to be confused with PADICO) was started in 1993 with a relatively modest capital base of around \$8 million, with the intention of encouraging investment in industry, real estate, tourism, finance and trade. In what appears as an advanced corporate form in the territory, a local insurance company and 34 major shareholders made the initial subscription to half of the 6 million shares of the company, with the rest sold directly to the public by the company (prior to the establishment of the securities exchange market). PIDCO since invested in a range of ventures, in partnership with other individual and corporate investors. This has included a local construction contracting company (in Ramallah), the first Palestinian aluminum processing company producing for the local and export markets (in Al-Bireh), a tourism investment company (in Jerusalem) which aims at developing hotels, tourist sites and resorts and a locally-based investment bank (in Gaza and Jericho).

As is indicated by these developments, a major emerging trend in regard to the organizational modes of investment activities in the Palestinian territory is the growing involvement of Palestinian diaspora businessmen in the rapidly growing enterprise sector. This is especially true in the case of businessmen based in Jordan, and to a lesser extent in Egypt and the Arab countries of the Gulf, mainly because of proximity and easier communications and interaction with the Palestinian territory. The fact that many of these businessmen have numerous acquaintances and family connections in the territory has facilitated their business contacts. The situation since 1994 affecting traffic across border crossings at the bridges and Israeli airports has reinforced motivations to return to the Palestinian territory, even if only for purposes of doing business. Furthermore, this trend gained momentum as a consequence to the resumption of banking activity in Palestine under semi-normal circumstances. In fact, many diaspora investors opted to join forces with newly opened banks when deciding to do business in the territory. Such partnerships afford greater security and institutional clarity to new investors, most of who are unfamiliar with local conditions.

b) Poor Market Access Conditions

So far, Palestinian traders have not been able to exploit the promising opportunities provided by the trade agreements with regional and international partners, confronted with poor market access conditions. This constraint operates both on the trade policy and operational levels. While Palestinian exports have been granted preferential market access by some major partners, these remain subject to a variety of conditions (quotas, seasons, the built-in limitations of the Paris protocol) that render them less than optimal in terms of Palestinian development needs. At the same time, the physical, infrastructure and procedure related constraints affecting the movement of Palestinian merchandise trade complicate and add considerable costs to the process.

One example is the case of the Interim Association Agreement with the European Union offering Palestinians limited quotas well below the potential for exports, especially with regards to agricultural produce. The PNA has raised the issue with their European counterparts on several occasions, presenting detailed lists of the needed quotas for exploiting the potential for agricultural exports but failed to obtain a raise in the original quotas. The EU has pointed out that, according to official statistics, the granted quotas are from being met. These statistics are misleading, however, since agricultural produce is exported through Israeli companies masking Palestinian produce. Since raising the quotas requires going back to member states, the quotas are likely to remain as for quite some time since reaching a consensus among members takes time.

In trade with Jordan and Egypt, market access is hampered by complex customs and overland transport procedures, leaving Palestinian traders with limited room to maneuver. Traders should adhere to specific transport systems, use a specific type of vehicles, and travel through specific routes making it difficult to deliver shipments on time. The absence of coordination mechanism among the region is another factor inflating transport costs for Palestinian traders and impacting negatively on their competitiveness. Transport costs associated with importing from/through Jordan are US\$494 per shipment, while those associated with importing from Egypt or exporting to Jordan range between US\$600-630.¹³

Transport costs are further inflated by stringent security measures at the main border crossings to neighboring countries, causing prolonged delays and damages to transported goods. These measures also limit the number of trucks crossing the borders, which did not exceed 18,000 truckloads per month during 1997-1998.¹⁴

c) Economic Vulnerability to External Shocks

The Palestinian economy's heavy reliance on the export of its labour services for generating income, owing to the absence of an internal engine of growth, has made it extremely vulnerable to external shocks. This was pronounced during the early nineties following the gulf war and the mass Jewish emigration to Israel from the former Soviet Union and eastern Europe. The Palestinian economy lost job opportunities in Israel as emigrants opted to accept jobs held by Palestinians so as to stay in Israel. This loss was coupled with the influx of around 30,000 Palestinians who had been working in the Gulf States, inflating unemployment rate by 10% in the West Bank and 4% in Gaza.¹⁵

Since the signing of the peace accords, Israeli border closures have been standing as the main threat to economic stability given its heavy reliance on Israel as a main trade partner and a main employer of Palestinian workers. In 1996, real GNP and real GDP declined by about 3% and 1.5%, respectively as a result of the prolonged border closure that was imposed for 121 days during the first half of the year. Improved second-half economic performance was unable to eliminate the traumatic effects, inducing significant decline in per capita GNP and GDP estimated at 8.5 and 7.5%, respectively. The need restructure the economy and re-orient it towards more balanced relations with Israel is obvious, and the present crisis has only served to highlight the magnitude of the economy's weaknesses.

d) Aid Effectiveness¹⁶

Donor assistance for Palestine involves over 50 donor countries and international organizations, along with individual Palestinian ministries, NGOs, municipalities and others. Since 1993, a multifaceted architecture for donor coordination has been put in place to facilitate agenda setting, reduce duplication and foster synergies. The Consultative Group (CG) of Donors and the Ad-Hoc Liaison Committee (AHLC) assumes overall coordination. The CG brings together the PNA and all bilateral and multilateral donors in annual meetings that are chaired by the World Bank during which development priorities are discussed and pledges are mobilized. The AHLC is smaller;¹⁷ it addresses coordination issues in the field, meets less frequently at a more senior level of representation, and is chaired by Norway with the World Bank assuming the role of the secretariat.

Within the overall structure, a number of sub-structures have been formed to ensure aid effectiveness including the Local Aid Coordination Committee (LACC) that was established by the AHLC to facilitate field coordination among major aid agencies and with the PA. It is co-chaired by Norway, the World Bank and the UN and meets at least once a month. In turn, the LACC established twelve thematic Sectoral Working Groups (SWGs), each with one or more PNA ministry as "gravel holder", a donor as "shepherd", and a United Nations agency as "secretariat" (See Annex). A Joint Liaison Committee (JLC) was also established by the AHLC to deal with impediments to prompt delivery of assistance, review the PA's budget performance and assist in setting priorities for technical assistance. It comprises the PNA as the "gravel holder", with Israel, the USA, the EU, the UN and the World Bank as the "secretariat", and Norway as the "shepherd".

The Palestinian counterpart to the World Bank is the Palestinian Economic Council for Development and Reconstruction (PECDAR) that tracks donor assistance, channeling it to specific projects and supervising implementation. PECDAR works in close coordination with the Palestinian Ministry of Planning and International Cooperation (MOPIC), the Ministry of Finance and other ministries. MOPIC plays a central coordinating role in the aid process by defining the PNA priorities and the overall framework for ensuring the proper allocation of financial assistance.

Aid coordination is also facilitated by agreements committing involved parties to specific targets and actions and brokered by the AHLC. These agreements are based on a tripartite Agenda for Action, addressing constraints to development and assessing responsibilities for the parties

involved in the aid process. The most recent agreement is the "Tripartite action Plan on Revenues, Expenditure and Donor Funding for the Palestinian Authority" (TAP) that was signed in 1996 between Israel, the PNA and the donor community represented by Norway in its capacity as the AHLC chair. It includes detailed commitments by contracting parties in such areas as tax clearances, PNA fiscal and expenditure policy, and continued budgetary support by donors.

The donor community has pledged US\$ 5.7 billion in assistance for Palestine during the period 1994-June 2000 in the form of grants (82.2% of total pledges) and loans or guarantees (Table III.1), with the PNA standing as the main beneficiary as opposed to the NGOs (Table II.2). To ensure the amelioration of existing structural weaknesses within the economy, funds were allocated in accordance with the "Emergency Assistance Programme" (EAP) that was presented to donors in December 1993 providing the initial blueprint for donor development investment. It addressed four sets of needs including infrastructure rehabilitation, human resource development, maintenance and enhancement of existing services, and institutional development of the Palestinian public sector. In 1998, the PNA presented a comprehensive list of projects in the field of infrastructure and natural resources, institution building, social development, and the productive sectors, as part of the Palestinian Development Plan that is revised periodically (Table II.3).

So far around 80% of total pledges (US\$ 4.6 billion) has been committed against specific projects. At the outset, donor assistance was mainly focused on budget support accounting for 31% of total assistance in 1994-1995. The period 1996-1999, witnessed a shift in donors' focus away from budget support to infrastructure development projects that accounted for 39% of total disbursements by the end of QII 1999 up from 19% in 1994-1995, though with no absolute increases. In contrast, budget support was dramatically reduced to less than 4% by mid 1999. Funds allocated to human resources and social development decreased, however, from 33% to 21 percent during the same period, as well as funds allocated to institution building that declined from 20% to 13%.

Assistance efforts have been facing immense challenges, however, given the adverse development environment pronounced by "an underdeveloped economy buffeted by severe external shocks; the need to construct a functioning Palestinian public administration where none existed before; the extraordinary complexities associated with the various Israeli-Palestinian interim agreements; the involvement of more than forty donors, over two dozen multilateral organizations and UN agencies; and hundreds of local and international NGOs in the development effort; political uncertainty and a highly politicized local and international environment; and the difficulties of planning for the future amid ongoing negotiations on the permanent status of the Territories".

Consequently, aid effectiveness is persistently undermined as some of the prevailing challenges are beyond the involved parties' outreach. A serious impediment to aid effectiveness is the geographic discontinuity within the Palestinian areas, as the safe passage between the West Bank and Gaza is yet to be opened, thereby aggravating the Palestinian economy's heavy dependence on Israel. Evaluating its assistance program, the EU is skeptical:

"We are in a situation of an abuse of prevailing economic standing. Since the West Bank and Gaza Strip enjoy no direct transport and communication with the world at large, other than through Israel or subject to Israel control, the consequence is an enormous structural dependence of the Palestinian economy on Israel and vulnerability to Israeli policy... Indeed, whatever the importance, the amount and the nature of financing, it is uncertain whether this will ensure effective economic development as long as the Palestinian economy remains under Israeli control".

The adverse environment is not the only impediment to aid effectiveness, nonetheless, given the complex nature of coordinating mechanisms adopted by the involved parties, henceforth, running the risk of "fragmenting, rather than reinforcing Palestinian capacities". As noted in a recent report prepared by Japan and the World Bank, donors are concerned about the "workload implied by the coordination structure; the lack of a more focused dialogue; inadequate preparation for some meetings; and uncertainty as to PNA responsibilities".

For their part, PNA officials are concerned that donors "tend to follow their own priorities and utilize their own channels; place too much emphasis on technical assistance; and spend too much money on donor country contractors and consultants". Conditionality poses a serious obstacle with certain donors requiring aid to be spent on goods and services from their own nationals and companies limiting the net transfer of capital and technical know-how to the Palestinians. There were also concerns that donors were poor at sharing information, took too long in project preparation and implementation, and had procedures that imposed an excessive administrative burden on the PA. The slow disbursement of committed funds bears witness to this with around US\$ 3 billion disbursed since 1994 at an average of US\$ 472 million per year.

Indeed, the EU considers these drawbacks as binding forces working against reaping the desired benefits from donor projects. In some cases, project ideas emerged upon the establishment of the PNA but the identified needs have often not been the subject of a precise requirement expressed by the PNA as it was the donor who more or less made the first move. The Palestinian administrations were sometimes "unable to submit to procedural requirements of donors which appear complicated". The result is that overall assistance looks like a disparate and scattered Programme with intricate procedures. In other cases, implementation was impeded by inaccurate cost estimations as the initial figures proved to be overestimated "creating a sudden need for an additional design exercise from conception to tender documents". Moreover, donors should "supplement each other more than they compete putting together resources, know-how and different cultural sensitivities".

The need to simplify coordinating mechanisms and strengthen overall coherence is obvious but more important still, and as pointed out by the World Bank, is their "integration into the Palestinian planning process, with the PA assuming a leading role in aid coordination". Both donors and the PNA would also benefit from improved documentation and transparency of aid management so as to ensure the availability of information to stakeholders and the public. The PNA's weak institutional capacity is seen as another factor causing implementation failure and the duplication of projects requests from the PNA, henceforth, the risk of donor overlap.

Notwithstanding the mentioned challenges and drawbacks, donor assistance has played an important role in "cushioning the impact of mobility restrictions and other external shocks", providing the economy with an external source of income, in addition to strengthening key institutions and local capacities. The tangible improvements in most areas of infrastructure and services bears witness to this: more than 264 km of new roads, 1775 km of water pipes, 393 km of new sewage lines, 3764 classrooms, and tens of new clinics have been constructed with donor assistance since 1994.

However, sustaining such development efforts is threatened by the prevailing impediments to aid effectiveness. The lack of a "well articulated connection between overall Palestinian development strategy and particular projects" is considered as a serious threat the sustainability of PA services". Continued growth of public sector employment is another risk, inflating the sector's wage bill at a rate that is much faster than fiscal revenue growth, diverting funds away from development projects.

The declining trend of donor assistance (by almost 20 percent from US\$ 512 million per year in 1996-7) exacerbates such concerns and highlights the need for developing internal sources for financing development. For, although such a trend can be attributed to the shift in composition of donor assistance to longer -term projects, it reflects the fact that external assistance cannot be maintained at the same level, let alone be relied upon indefinitely.

E. The Crisis of 2000-2001

The widespread economic crisis resulting from Israeli aggression against the Palestinian people since September 2000 has aggravated an already adverse environment, with far-reaching repercussions for Palestinian development. If anything, the crisis has eroded the benefits reaped from development efforts, highlighting the magnitude of the economy's structural weaknesses. During the period 1 October 2000 - 31 January 2001, there were 93 days of border closures (76% of the time) inducing huge economic losses that stood at US\$ 862 million for the months of October-November 2000, according to the PCBS's estimations. Of these, \$420 million was accounted for by deteriorating domestic economic activities, including trade; \$169 million was due to loss of employment in Israel; and \$272 million was damaged infrastructure.¹⁸ As pointed out by UNSCO, GDP in those months was less by 50% than projected GDP for the reported period (assuming no border closure).¹⁹ UNSCO estimates aggregate losses during the period 1 October 2000 - 31 January 2001 at \$1,150 million including losses accrued from the decline in GDP (\$907 million) and labour income from Israel (\$243 million).²⁰ Per capita gross national income (GNI) is estimated to have declined by at least 16% from a projected \$2000 for the year 2000 to an estimated \$1,680.²¹ Extrapolating these figures forward for the months of February and March implies an aggregate loss of Palestinian national income of around \$1.8 billion for the six-month period October 2000 - March 2001. These losses do not include losses incurred as a result of the Israeli destruction of basic infrastructure that are estimated to have reached \$200 million by the beginning of January.

Manufacturing and construction activities incurred the highest losses during the period October-November 2000, together accounting for about 40% of the decline in GDP during the period. Internal and external trade activities (wholesale and retail trade, customs duties and net VAT on

imports) accounted for nearly 30% of the loss. Agriculture accounted for another 10%. Public administration and publicly owned enterprises combined accounted for about 10% of the decline while the other services, both public and private, contributed about 10% of the loss in GDP. Palestinian exports to Israel registered a decline of 22% during October and November 2000 on a monthly average basis compared to October–November 1999 from \$45 million to \$35 million. Non-agricultural imports from Israel declined from \$147 million to \$100 million on a monthly average basis, a drop of 32% compared to the same period in 1999.²² According to the Palestinian Ministry of Agriculture, agricultural exports during September–December 2000 registered a 43% decline compared to the same period in 1999.

Consequently, the rate of unemployment grew to 47% by early 2001, with more than 260,000 unemployed compared to 11% unemployment rate during the first nine months of 2000. Poverty rate registered over 50% increase during the period 1 October 2000–31 January 2001 to stand at 32% compared to 21% in September 2000.²³ At present, more than 1 million people, one third of the population, are living below the poverty line of \$2.10 per day according to the World Bank, while PECДАР estimates the percentage of people living under poverty line at 45%.²⁴ This leaves more than 41% of the families without any source of income, as reported by the Palestinian labour Union. So acute is the impact of closure that even with a partial relaxation in the Israeli restrictive measures, poverty rate is expected to reach 44% by the end of 2001.²⁵ The proposed PNA budget for the year 2001 puts the fiscal deficit at \$524 million, while the 2001 deficit is estimated to be at least four times the level anticipated at the onset of the crisis.²⁶

In an attempt to curb the ever deteriorating economic indicators, donors and the PNA are persistently forced to redirect attention towards emergency job creating at a time when they had otherwise hoped to maintain an undivided attention to longer-term infrastructure needs. Coupled with ever increasing global and regional competition facing the economy, challenges to development efforts are paramount.

V. A Framework for Economic Management

The PNA has committed itself to the establishment of a free market economy that is stimulated by a vigorous private sector. This commitment is well pronounced in the PA's overall development strategies limiting its role to ensuring a well orchestrated institutional set-up that would empower the private sector through incentives and support institutions and built-in measures mechanisms for ensuring its participation in policy making.

A. The Palestinian Development Plan

The Palestinian Development Plan (PDP) for 1999 to 2003 constitutes an initial framework for the development of the Palestinian economy. It has served as the principle instrument for linking Palestinian reconstruction needs and development programs with international donor resources. The PDP is based on several principles, which together constitute short- and medium-term goals, summarized as follows:

- 1) The Palestinian economy is private sector driven and market based. The role of the public sector is limited to establishing an enabling economic environment through the legislative framework and the rule of law, as well as the management of institutions providing services to the private sector.
- 2) As a direct result of the small size of the of the Palestinian market and the changing regional and international economic environment, growth in the Palestinian economy relies on the creation of an open market, and the capability of accessing new markets for Palestinian products and services.
- 3) The Palestinian development strategy gives priority to the development of human resources, as a pivotal factor in the economy. This is achieved through the creation of employment opportunities, the reduction of dependence on the external labour markets, as well as the creation of sectoral development strategies, including training in the trade in services and information technology.
- 4) The utilization of the special assets relating to the geographical and historical position and tourist attractions, to enhance the tourism industry of the PA.
- 5) The enhancement of the role of the Palestinian economy both regionally and globally in order to integrate it into the multilateral trading system.
- 6) Improvement in the competitiveness of the Palestinian economy through the development of higher technology to achieve international standards.

B. Economic Policy Framework

A key step on the path to improved management of public finances was taken with the establishment in January 2000 of the Higher Council for Development, grouping the President and the Ministers of Economy and Trade, Finance and Planning and International Cooperation. The Council was entrusted with a clear and unequivocal reform mandate, as presented to the donor community in mid-2000 under the "Economic Policy Framework" (EPF), developed in collaboration with the International Monetary Fund.

The Council's work Programme includes consolidation of all public revenue in one central account, enhanced public investment policy, strategies and instruments, a commitment to privatize PNA commercial holdings and enhanced oversight of public debt operations. These functions to be implemented by the respective Ministries will be subject to full accountability and transparency, while also benefiting from policy coordination at the highest levels of the Palestinian Authority, as well as with donors and multilateral institutions.

The overall objective of the EPF is to ensure that economic policies over the coming years make a positive and significant contribution to overcoming the challenges facing the Palestinian economy. In its first stage of work, the EPF was intended to focus sharply on policies to strengthen fiscal management, enhance transparency and governance in the PNA commercial and financial operations, improve banking supervision and strengthen the legal and regulatory framework. By mid-2000, significant progress had been made in revenue consolidation, as well as disclosure of PNA commercial holdings.

C. National Economic Dialogue

The PNA attaches great importance to promoting the private sector's participation in policy making for ensuring the articulation of responsive policies tackling the major impediments to growth. The fact that the PNA is often forced to respond to emerging obstacles on an ad hoc, case by case basis, impeded by the adverse political environment only increases the importance of ensuring a better incorporation of the private sector's interests into public policies, programs, and projects. Within this context, the National Economic Dialogue was launched in 1999 with a view to enhance a progressive dialogue between the private sector and the PA. Administered by PEC DAR and the World Bank with PALTRADE as the executive body, the project aims at reducing fragmentation in policy making, identifying and prioritizing the private sector's interests, and suggesting recommendations with regards to key policy issues.

The project was implemented in a phased manner whereby the first phase entailed the formulation of a priority list for policy makers through workshops including representatives from the private sector and research institutes. After a series of workshops conducted during 1999, participants formulated a comprehensive priority list including 25 policy issues categorized in 4 major groups including issues pertaining to Israeli restrictions, local government practices and policies, economic uncertainties, and issues pertaining to the challenges stemming from the wide spread of globalization policies. The second phase entailed formulating white papers on major policy issues. These were discussed during a Conference convened in mid-2000, bringing together PNA officials and representatives of the private sector, before being submitted to the PNA through the Ministry of Economy and Trade.

D. Operational Policies

1. Fiscal policy

Maintaining a low, or at least sustainable budget deficit stands as a major impediment to ensuring comprehensive public services in terms of their variety and outreach, let alone ensuring their sustainability. This does not indicate flaws in fiscal policies, however, in as much as it

reflects the binding factors impeding self-sufficiency. Most notable is the difficulty of expanding the tax base beyond the present level of 70,000 taxpayers, given the structural weaknesses within the economy. On the expenditure side, the PNA is faced with limited capacity to ensure an efficient allocation of revenues and service delivery. Consequently, the PNA should be evaluated against "performance in the real world, not the ideal one. It has achieved levels of service delivery, revenue mobilization, financial accountability, and utilization of international assistance that are at least commensurate with, and in some aspects exceed, those in countries with comparable development and income".²⁷ Though there remains much room for improvement, the previous achievements gain much importance reflecting the significant steps the PNA has taken to improve financial management.

- **Revenues**

In order to increase government revenue and finance reconstruction expenditures and investment, the PNA has introduced a number of improvements in its administrative and financial structures. Tax collection procedures have been modernized and a new income tax regime has been introduced, reducing income tax for the top bracket from 38% to 18%. Customs procedures and administration have been examined to upgrade them so as to adhere to international standards. Indirect revenues (value-added tax, customs and excise) provide the greater proportion of public revenues. Domestic tax collection capacity has showed steady improvement since 1995, owing to concerted efforts of the Ministry of Finance, including training of tax collection staff, public awareness campaigns and improved ability to identify potential taxpayers and to detect tax-fraud.

- **Government budget**

The PNA achieved a balanced budget in 1998 with a surplus of US\$60 million on a cash basis. In addition, for the first time since its inception, the PNA financed all current expenditure using its own resources without resort to donor support. The budget for 2000 grew to \$1.363 million, 70% of which is devoted to payroll and operating expenditures. Development expenditures remain largely dependent on donor finance, which is increasingly made available in the form of loans. The ratio of official development assistance (ODA) to GDP has declined from around 20% in 1995 and 1996 to around 13% by 1998-1999.

The budget deficit, which had reached around 3% of GDP in 1996, has been reduced since 1997, as deficits accruing from current expenditures have declined. Since then, the bulk of the deficit was generated by capital expenditures, which have been financed by grants from the donor countries, and from short-term commercial bank overdraft. The budget deficit should be eliminated as of 2000, but arrears remain from previous years. It should be noted, however, that owing to donor assistance the effective deficit was not a large proportion of the total expenditure budget. The deficit was projected at \$52 million for 2000, which was less than 5 percent of the total expenditure budget for that year.

In order to enhance efficiency and transparency, the Ministry of Finance has established a Public Debt Directorate, which will operate a computerized debt management and financial analysis system (DMFAS) provided through UNCTAD.

2. Investment Policy

The PNA is implementing an open investment policy with the aim of attracting foreign investment and re-orienting domestic savings and investment to augment Palestinian development efforts.

• Investment Law

Owing to the national commitment of encouraging investors and building a modern market economy, the 1998 Law on the Encouragement of Investment superseded the 1995 Law. The new Law has wide sectoral coverage based on a negative list. It offers guarantees to all new investors and stipulates a series of incentives of different duration, based on the capital invested and the labour employed. The Law also allows different benefits to investors and national treatment for all investors.

• Industrial Estates and Industrial Free Zones Law

The Law on Industrial Estates and Industrial Free Zones was ratified in November 1997. The law designates certain areas as free zones to facilitate the establishment of regional and international export centers. The Palestinian Industrial Estate and Free Zone Authority was established as an autonomous body to oversee the implementation of estates and free zones, and create an enabling and regulatory framework for the success of their operations.

• Investment Guarantee Regime

Upon the request of the PNA, the Multilateral Investment Guarantee Agency (MIGA) created the West Bank and Gaza Investment Guarantee Trust Fund. The Trust Fund provides guarantees for eligible foreign investors against major political risks such as expropriation as well as war and civil disturbance in member countries. This Trust Fund helps to attract foreign direct investment in the Palestinian economy.

3. The Legal Framework

The following laws with a direct bearing on economic and trade activity have been published in the Official Gazette:

- Public Works and Bidding Law
- Public Procurement Law
- Natural Resources Law
- Amendment of Money Changers Law
- Supervision and Stamp of Gold and Precious Metals Law
- Industrial Zones Law
- Labour Law
- Encouragement of Investment Law
- Environment Law
- Palestinian Monetary Authority Law

- Law for the Formation of the Insurance and Pensions Fund
- Commercial Agency Law
- Law for the Establishment of the Palestinian Energy Authority
- Apartments Condominiums and Stores Ownership Law
- Law for the Establishment of the Palestinian Water Authority
- Communication and Telecommunication Law
- Animal Husbandry Law
- Public Budget and Financial Affairs Law

- **Intellectual property rights**

The Ministry of Industry is responsible for the implementation of intellectual property legislation. The prevailing Laws on intellectual property rights are the Civil Ordinance of 1933, applicable in the Gaza Strip, and the Jordanian Merchandise Ordinance No 19 of 1953, the Patent Ordinance No 22 of 1953 and the Trade Mark Ordinance No 33 of 1942 regarding registration of intellectual property. To accommodate the commercial developments, the PNA is actively working on enacting new legislation to ensure adequate protection to all categories of intellectual property rights. New legislation is being drafted conforming to international standards and in line with WIPO guidelines.

4. Commitment to Good Governance

The PNA is committed to enhancing the rule of law given the pivotal role it plays in ensuring sustainable development. It strongly believes that this could not be achieved without a basic law that incorporates internationally-recognized human rights, empowers an independent judiciary, defines and limits the powers of government, and outlaws discrimination and protects minorities. The PNA also attaches great importance to establishing and maintenance of a strong and fair electoral system, and the creation of a broad framework of laws and policies, which protect human rights, fundamental freedoms and democracy and strengthen the judiciary.

Within this context, the PNA has created a strategic framework development scheme, "Rule of Law Strategic Development Plan", with a view to identify and prioritize needs within each of the sub-sectors of the rule of law domain. It has also created a rule of law core group, the "Core Group on the Rule of Law", to focus specifically on the continuing needs in this sector, to develop and propose plans of actions to address these needs, and to monitor progress made.

Twenty-four donors and thirteen United Nations agencies and Programmes, along with numerous independent international and Palestinian NGOs, currently support the rule of law sector. Each of these development partners are working with the Executive branch, through, *inter alia*, the Ministries of Interior, Justice, Planning and International Cooperation and Local Government; with the Judiciary, through Palestinian judges at all levels and with court staff; with the Legislative branch, through the Palestinian Legislative Council; with the Palestinian Independent Commission for Citizens' Rights; and with civil society, through the many Palestinian NGOs present in the West Bank and Gaza Strip.

Moreover, some national plans of action (e.g., for Children, for Human Rights) have either been initiated or are anticipated. NGOs, as well as the Palestinian Independent Commission for Citizen's Rights, have received much-needed support from the international community.

5. Strengthening Public Institutions

The PNA has succeeded in taking over and operating the Israeli-run Civil Administration as well as in absorbing the numerous NGOs actively involved in the provision of public services. However, it is persistently challenged a growing population and limited resources triggering a series of initiatives to reform public administration. The first initiative took the form of establishing a "Core Group for Public Administration" (CGPA) within the PNA acting as a counterpart of the donor community's "Sector Working Group on Institutional Building" in order to set forward public administration development plan. The CGPA, which includes six key public institutions, submitted its first development strategy and targets to the Palestinian Development Plan in August 1997.

In May 1998, a new civil service law was enacted setting new standards for recruitment, promotion and evaluation so as to motivate employees and ensure transparency. The following month witnessed other initiatives with the establishment of the "Public Administration Development Unit" attached to the PNA cabinet and the establishment of a "Public Sector Reform Committee" at the ministerial level.

In August 1999, an independent committee, the "Higher National Committee for Institutional Development" (HNCID) was established in accordance with a presidential decree initiating the process of administrative reform. The committee was mandated with the task of developing public institutions, following up on all domestic and international reports on Palestinian institutional reform, and present to the cabinet operational measures for ensuring a successful reform. In turn, the HNCID established six sub-committees to ensure a comprehensive coverage of different factors affecting public institutions' performance. Each committee is mandated with the task of conducted a gap analysis identifying major obstacles and suggesting appropriate reform measures and action plans that are feasible, visible and capable of ensuring maximum impact. The sub-committees were given two months to formulate individual action plans and another four months for implementing the first phase of the devised action plans. Measures taken by the ministries and the cabinet as well as legislation passed by the PLC will then be ratified to facilitate and speed up the reform process. In February 2000, an independent body, the "Administrative Improvement Unit" (AIU), was established to act as the executive arm of the HNCID managing and integrating activities initiated by the later.

6. Trade Promotion Institutions

Palestinian private sector and trade-promotion organizations are involved in efforts to improve market access for Palestinian products, obtain and disseminate global and regional market information and promote e-commerce. These include:

- Palestinian Center for Trade Development (PALTRADE);
- Federation of Palestinian Chambers of Commerce (FPCC);
- European Palestinian Chamber of Commerce (EPCC);

- Palestinian American Chamber of Commerce (PACC); and
- Palestine World Trade Center (PWTC).

7. Human Resources

The wealthy and educated Palestinians in the Diaspora, having accumulated rich experiences throughout their career lives, significantly offset the lack of natural resources. These are relied upon to play a significant role in developing the economy once peace is achieved. The young generation is another important asset as indicated by the overall literacy rate (for males and females aged 15 years and above) standing as among the highest in the region at 89% in 1999. Though this rate varies between males and females, (92.2% for males and 79.7% for females), and between urban and rural areas (87.6% and 83.1% in 1997, respectively). Net enrollment ratio for males and females registered substantial increase during the period 1994-1998 across basic and secondary grades, while drop out rate for males registered a slight increase during this period as compared to females drop out rate. By and large, there exists a tendency to ensure equal opportunities in education for males and females as reflected in the distribution of classes by stage and gender. The gap between the number of male and female classes in the elementary stage is paralleled by persistent increases in the number of coeducation classes. Arabic is the official language, though English, French and Hebrew are also spoken.

8. Economic, Trade, and Transport Agreements

- The Palestinian Liberation Organization, the representative of the Palestinian people, signed the Protocol on Economic Relations on April 29, 1994 with the Government of Israel.
- The Palestinian Liberation Organization for the benefit of the PNA of the West Bank and Gaza Strip signed the Economic and Technical Cooperation Agreement with the Arab Republic of Egypt on January 25, 1995.
- The PNA signed a Trade Agreement with the Government of the Hashemite Kingdom of Jordan on January 26, 1995.
- On October 3, 1996, the President of the United States issued a presidential decision granting duty free treatment to products of the West Bank and Gaza Strip entering the United States market. The PNA reciprocated unilaterally and granted United States products duty free treatment upon entering the West Bank and Gaza Strip.
- On February 27, 1997, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Euro Mediterranean Interim Association Agreement on Trade and Cooperation with the European Community.
- On November 30, 1998, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Interim Free Trade Agreement with the EFTA states.

- In 1998, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a Protocol on Trade Relations with the Arab Republic of Egypt.
- On February 27, 1999, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Joint Canadian Palestinian Framework for Economic Cooperation and Trade.
- On the 4th of July 2000, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority, signed an agreement with the Government of the Hashemite Kingdom of Jordan for the purpose of establishing a joint Free Trade Area (FTA) in the Jordan Valley. Construction works will proceed in a phased manner with a view of operating the FTA by the year 2007.
- In July 2000, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a transport agreement with the Government of the Hashemite Kingdom of Jordan, according to which the two sides adopted the "door-to-door system" as of the 1st of August 2000.
- On the 18th of January 2001, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a cooperation agreement with the Government of the Hashemite Kingdom in the field of customs. Considered to be the first of its kind between the PNA and members of the Arab world, the agreement envisages a cooperation that includes the exchange of administrative and technical expertise, the rationalization and harmonization of customs procedures, along with curbing the smuggling of goods through the borders.

9. Conducive Environment for Re-Orienting the Palestinian Economy

Until a few years back, governments throughout the Middle East were more committed to global integration as opposed to regional integration. However, the ever increasing role regional economic blocks play in shaping global policies triggered a shift in these governments' focus towards regional integration underscored by common frameworks for coordinating development efforts.

The peace process encouraged governments to take further steps towards this end in the form of regional conferences and investment in infrastructure. Roads, railways, harbors and airports are receiving priority treatment in budgetary allocations, while future plans entail proposals to link the Egyptian, Israeli, Lebanese and Syrian rail and road grids.²⁸ A proposal to establish a free trade area comprising Palestine, Jordan and Israel has also been suggested with a view of extending the area's membership to include Egypt, Lebanon and Syria in the future. This is coupled with plans to construct new coastal roads on the eastern coast of the Mediterranean to link the southern and western areas, thereby enhancing integration among Lebanon, Palestine, Israel, Syria, Egypt and Turkey.

Aside from reducing transaction costs associated with trade activities, the stipulated integration will provide the economy with an additional source of income since Palestine stands as a transit corridor for other countries in the sub-region. For example, Jordanian traders currently using *Aqaba* port, over 300 kilometers south of Jordan's capital-Amman, to import goods from Europe and North America can reduce transport costs through using Gaza port that is situated only 200 kilometers west of Amman.

VI. Palestine's Expectations for the Decade 2001-1010 in the Context of the Third United Nations Conference on the Least Developed Countries

The experience of other countries emphasizes the importance of looking beyond an economy's main economic indicators when assessing its performance. Economic indicators may mask structural weaknesses and incidences of policy failure including the marginalization of the underprivileged from development programs. In fact, unless development efforts proceed with a clear understanding of the main forces affecting economic performance, policy makers may run the risk of confusing the main problems with their symptoms, thereby leaving the causes of these problems unattended. The need to maintain a clear perspective on the basic economic and political dynamics at play is essential when dealing with the Palestinian economy, whose main features militate against exploiting the potentials provided by international trade agreements. Provisions for differential and more favorable treatment of least-developed countries are not yet applied to Palestine, despite the fact that it stands to benefit greatly from such provisions.

The League of Arab States has officially classified Palestine within the list of Least Developed Arab Countries, granting it preferential and more favorable treatment in the implementation of trade and economic agreements. Although Arab markets provide significant opportunities for expanding Palestinian trade, alone they cannot provide sufficient stimulus for accelerating growth, given the common trade patterns among Arab countries. Accordingly, Palestine remains in need of better access conditions in developed countries' markets for ameliorating supply and demand side constraints. Palestine also needs technical assistance in trade policy, infrastructure management and structural reforms, as outlined in the following concluding sections.

A. Better Access to Markets of Developed Countries

Unless efforts to improve the Palestinian economy's supply capabilities are coupled with better market access conditions, the economy will continue to suffer from the same structural weaknesses. WTO Ministerial Declarations to provide least-developed countries with more favorable market access conditions reflects growing concerns over the adverse consequences the present situation will induce if further extended. The "Decision on Measures in Favor of Least-Developed Countries" agreed that "expeditious implementation of all special and differential measures taken in favor of least -developed countries including those taken within the context of the Uruguay Round shall be ensured through, *inter alia*, regular reviews". However, WTO members continue to impose tariff and non-tariff barriers on their imports from least-developed countries, thereby making it difficult for these countries to develop their economies or even obtain tangible benefits from technical assistance programs in the field of trade policy.

In the case of Palestine, exempting Palestinian exports from quotas, duties and the complex rules of origin has paramount importance for stimulating economic development. At present, poor market access conditions aggravate the structural weaknesses within the economy, discouraging enterprises from modernizing production processes and enhancing their presence in virtual markets. These conditions also discourage investors from undertaking major projects in Palestine, hence obstructing the flow of FDI into the economy. In a causal-effect relation, the present situation is working against the development of the financial sector. Banks are hesitant to invest in developing sophisticated services given the enterprises' salient features, while the PSE is confronted with a weak demand on its services since only a few enterprises capable of meeting the listing requirements.

B. Better Access to Transit Transport Facilities

Palestine's disadvantaged geographical location poses a serious impediment to trade expansion given its heavy reliance on regional transport facilities and routes for increasing its participation in global trade. Palestinian traders are denied proper access to these facilities, however, given Israel's restrictive measures and recurrent closure of Palestine's main borders. Granting Palestine preferential transit rights through the territories of its neighboring countries is essential for trade expansion, as well as exempting it from customs duties, taxes and other transit transport charges given the prohibitive transport costs Palestinian traders currently face. Palestine also stands as a main potential beneficiary from the provisions for more favorable and differential treatment provided for Land-Locked States under the terms of The United Nations Convention of the Law of the Sea (1982) including the exclusion of application of the most favored-nation clause (article 126), free zones and other customs facilities (article 128), co-operation in the construction and improvement of means of transport (article 129), measures to avoid or eliminate delays or other difficulties of a technical nature in traffic in transit (article 130), equal treatment in maritime ports (article 131), and granting of greater transit facilities (article 132)

C. Access to Modern Production and Telecommunication Infrastructures

As explained earlier, Palestine's limited exports reflect structural weaknesses within the industrial base dominated by under-developed SMEs sharing the features of cottage industries. The need to strengthen these enterprises' supply capability is obvious but more important still, is setting the stage for the establishment of new generations of SMEs and large enterprises that are capable of competing in global markets.

Active participation in international trade is hampered by the Palestinian industries' weak technological capabilities specialized in labor-intensive and agricultural products, thereby undermining the possibility of trade diversification. The industries are discouraged from exploiting the Internet for extending their outreach faced by high user fees, while the ever-increasing spread of e-commerce means greater market shares for TNCs and foreign companies at the expense of local enterprises. This is so because the PA's commitment to create an e-commerce enabling environment is challenged by expensive telecommunication infrastructures and networks. Although infrastructure related the donor community currently finances development projects, the decreasing trend of donor funding over the last few years requires

granting Palestine access to modern production and telecommunication infrastructures at lower costs.

Under the terms of GATS, WTO members agreed to "facilitate" an increasing participation of developing country members in world trade through "negotiated specific commitments" relating to the "strengthening of their domestic services capacity and its efficiency and competitiveness *inter alia* through access to technology on a commercial basis" (Article IV: 1). Members are to give "special priority to least-developed country Members in implementing this article" while taking "particular account of the serious difficulty of these countries in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs"(Article IV:3). However, the technological divide between the developed and developing countries is increasing, as developed countries have yet to translate these agreements into specific commitments. In the case of Palestine, a failure to obtain access to modern production and telecommunication infrastructures at low costs runs the risk of inducing sluggish growth, working against the development of an internal engine of growth to substitute the export of labor services.

D. Technical Assistance

Although the Palestinian trade sector's disappointing performance record is mainly attributed to poor market access conditions, it is also underscored by competency shortfalls. These include limited experience in trade policy, trade facilitation and handling multi-lateral trade negotiations at the government level, henceforth, undermining Palestine's ability to enhance trade opportunities and exploit trade agreements with other countries. The PNA has committed itself to institution building establishing the needed mechanisms for improving policy making and service delivery including institutionalized public/private partnerships. This is insufficient, however, given its intention to accede the WTO, a process which will require concerted efforts to enhance its capacities to formulate trade policies and laws compliant with WTO rules.

Within this context, Palestine can certainly benefit from the "Integral Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least-Developed Countries in Their Trade and Trade-Related Activities" endorsed by "The High-Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development convened by the WTO in 1997". The need to improve the private sector's productive capacity gains paramount importance for improving the enterprises' competitiveness in global markets. An extension to this is the need to strengthen trade support services including trade finance, infrastructure services, information technology, and market information. Palestine also needs technical assistance for increasing the level of private investments, attracting FDI, and mobilizing public and private saving.

Although technical assistance programs form an integral component of nearly all donor funded projects, they tackle technical drawbacks in as much they relate to the funded projects. This should not be understood as an attempt to negate the importance of such technical assistance programs, rather the aim is to emphasize the need for a comprehensive and systematic approach that ensures a balanced treatment of the prevailing technical impediments to trade expansion.

The PNA also needs technical assistance in the field of infrastructure development and management to ensure effective response to present and future needs. The PNA's commitment to open infrastructure sector for foreign direct investment and the donors' active involvement in financing related development projects will certainly ensure improving the quality of services at lower costs. However, unless monitored and coordinated these projects will not guarantee the amelioration of prevailing bottlenecks, let alone ensure their sustainability.

More important still, is the need for technical assistance in developing a well-articulated "National Action Program" for translating development strategies into increased economic growth. The PNA needs to incorporate the least-developing countries' experience into national development strategies, policies, administrative reforms, and projects needed for ameliorating supply side and demand side constraints. The experience of these countries is also important for avoiding implementation failure and ensuring sustainable development that is not dependent on foreign aid.

Accordingly, Palestine believes that the Third Conference on Least Developed Countries can take concrete measures, recalling paragraph 9 of General Assembly resolution 43/178, and in the light of the special circumstances still faced by the Palestinian people. In particular, this could include extending to Palestine the same preferential treatment and assistance accorded to least developed countries during the transition period to statehood and beyond, as well as including Palestine in all technical assistance programmes and activities intended for the LDC group. UNCTAD secretariat could play a valuable role in coordinating such assistance, beginning with the preparation of the "Palestine National Action Program for Development, 2001-2010".

Annex I: Population, Labor and Poverty

• Population

(Table I.1) Projected Mid-Year Population in Palestine by Age, Sex and Region, 1999

Age Group	West Bank			Gaza Strip			Palestinian Territory		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	175,792	169,195	344,987	110,293	106,937	217,230	286,085	276,132	562,217
5-9	145,842	140,914	286,756	93,126	90,832	183,958	238,968	231,746	470,714
10-14	121,040	115,784	236,824	74,415	71,427	145,842	195,455	187,211	382,666
15-19	102,939	97,103	200,042	58,236	55,691	113,927	161,175	152,794	313,969
20-24	89,082	84,878	174,960	46,608	45,604	92,212	135,636	130,482	266,118
25-29	77,739	74,503	152,242	36,434	35,981	72,415	114,173	110,484	224,657
30-34	64,916	61,604	126,520	31,994	29,879	61,873	96,910	91,483	188,393
35-39	53,036	50,071	103,107	26,885	24,253	51,138	79,921	74,324	154,245
40-44	38,579	36,856	75,435	19,150	17,904	37,054	57,729	54,760	112,489
45-49	26,480	26,117	52,597	14,362	14,462	28,824	40,842	40,579	81,421
50-54	20,006	22,415	42,421	10,069	11,247	21,316	30,075	33,662	63,737
55-59	16,011	19,465	35,476	6,603	9,043	15,646	22,614	28,508	51,122
60-64	13,730	17,608	31,338	6,283	8,295	14,578	20,013	25,903	45,916
65-69	11,549	14,992	26,541	5,421	7,097	12,518	16,970	22,089	39,059
70-74	8,703	11,009	19,801	3,729	5,134	8,863	12,432	16,232	28,664
75-79	5,532	6,916	12,448	2,195	2,873	5,068	7,727	9,789	17,516
80+	5,836	6,360	12,196	2,088	2,517	4,605	7,924	8,877	16,801
Total	976,758	955,879	1,932,637	547,891	539,176	1,087,067	1,524,649	1,495,055	3,019,704

Source: PCBS, "Population in the Palestinian Territory, 1997-2025", Palestine

• Labor Force and Wages

Table (I.3): Changes in the Labor Force Indicators During 1995-2000

Variables	1995	1996	1997	1998	1999
Labor Force participation Rate	39.0	40.0	40.5	41.4	41.6
Full Employment Rate	60.7	64.3	70.4	79.1	82.8
Underemployment Rate	21.1	11.9	9.3	6.5	5.4
Unemployment Rate	18.2	23.8	20.3	14.4	11.8
Employed in Agriculture	12.7	14.2	13.1	12.1	12.6
Employed in Construction	19.2	16.8	18.4	22.0	22.1
Employed in Manufacturing	18.0	16.8	16.4	15.9	15.5
Employed in Services	25.6	29.2	28.2	27.1	28.1
Elementary Occupation Workers	18.3	28.7	28.9	31.0	29.7
Craft and Related Trade Workers	27.5	24.0	24.6	24.7	22.7
Employed in Israeli Settlements	16.2	14.1	17.1	21.7	23.0
Employers	6.9	5.5	5.3	5.8	5.5
Self-Employed	21.2	22.3	22.9	21.0	18.7
Wage Employees	61.7	61.4	62.0	65.3	67.8
Unpaid Family Members	10.2	10.8	9.8	7.9	8.0
Median Daily Net Wage (NIS)*	46.3	46.2	50.0	57.7	69.2

Source: "Labor Force-Current Main Indicators", Palestinian Central Bureau of Statistics (PCBS), Palestine

*Including workers in Israel and Israeli Settlements

Table (I.4): Wage Discrepancy Among Places of Work by Sex and Economic Activity, 1999

GE.01-70070

Economic activity and Sex	Median Daily Wage for workers in the West Bank	Median Daily wage for workers in Gaza Strip	Median Daily Wages for workers in Israel and Israeli Settlements
Both Sexes			
Agriculture, Hunting and Fishing	50.0	30.0	70.0
Mining, Quarrying and Manufacturing	50.0	38.3	100.0
Construction	70.0	40.0	100.0
Commerce, Hotels and Restaurants	57.7	30.8	100.0
Transportation, Storage and Communication	65.4	46.2	107.0
Services and Other Branches	57.7	50.5	100.0
Total	60.0	46.2	100.0
Males			
Agriculture, Hunting and Fishing	50.0	30.0	70.0
Mining, Quarrying and Manufacturing	60.0	38.5	100.0
Construction	70.0	40.0	100.0
Commerce, Hotels and Restaurants	57.7	30.8	100.0
Transportation, Storage and Communication	65.4	46.2	107.0
Services and Other Branches	61.5	50.0	100.0
Total	61.5	46.2	100.0
Females			
Agriculture, Hunting and Fishing	40.0	-	64.3
Mining, Quarrying and Manufacturing	30.0	20.0	46.6
Construction	50.5	-	90.0
Commerce, Hotels and Restaurants	50.5	-	115.4
Transportation, Storage and Communication	57.7	-	-
Services and Other Branches	55.8	53.8	113.1
Total	50.5	50.0	80.0

Source: "Labor Force Survey Annual Report 1999" PCBS, Palestine

Note: (-) denotes the lack of observations

• Health Indicators

Table (1.2): Main Health Indicators, 2000

Indicator	Percentages
Under-five mortality rate (1995-1999)	28.7 per 1000
Infant mortality rate (1995-1999)	25.5 per 1000
Underweight prevalence	2.5
Stunting prevalence	7.5
Wasting prevalence	1.4
Use of safe drinking water	96.2
Use of sanitary means of excreta disposal	99.6
Antenatal care	95.6
Contraceptive prevalence	51.4
Childbirth care	97.4
Birth weight below 2.5 kg.	8.6
Iodized salt consumption	37.4
Children receiving Vitamin A supplementation	15.5
HIV/AIDS incidence (1999)	0.14 per 100,000
AFP incidence rate (1999)	1 per 100,000
Viral Hepatitis A incidence (1999)	87.3 per 100,000
Viral Hepatitis B incidence (1999)	3.2 per 100,000
Viral Hepatitis C incidence (1999)	4.3 per 100,000
Knowledge of preventing HIV/AIDS	33.9
DPT immunization coverage	88.5
Measles immunization coverage	92.9
Polio immunization coverage	96.8
Tuberculosis immunization coverage	74.7
Children protected against neonatal tetanus	27.5
ORT use	20.6

Source: "Health Survey 2000: Main Findings", Ministry of Health, Palestine, for 1999 "The Status Of health in Palestine: Annual Report 1999", Ministry of Health, Palestine.

• Education

Table (1.5): Net Enrollment by Grade 1996/1997-1998/1999

Grade	1996-1997			1997-1998			1998-1999		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1 st	80.17	78.05	79.13	89.75	85.66	87.74	83.03	80.20	81.64
2 nd	77.57	74.71	76.17	85.45	82.84	84.16	85.33	81.83	83.61
3 rd	74.81	71.91	73.39	81.25	78.94	80.11	82.08	77.83	79.99
4 th	66.74	65.67	66.22	74.54	73.72	74.13	78.19	75.01	76.63
5 th	65.11	63.43	64.29	66.43	65.04	65.75	73.26	70.87	72.09
6 th	61.68	60.54	61.12	62.50	62.57	62.54	64.60	63.55	64.08
7 th	52.71	54.33	53.50	56.08	58.53	57.27	60.73	60.43	60.58
8 th	47.70	47.42	47.56	50.68	53.30	51.95	54.58	56.57	55.55
9 th	42.21	45.72	43.92	44.24	46.35	45.27	48.23	49.73	48.96
10 th	37.42	38.51	37.95	39.53	42.89	41.17	40.80	44.06	42.39
11 th	32.02	32.90	32.45	33.67	34.42	34.04	33.63	39.02	36.25
12 th	30.82	28.20	29.55	30.69	30.04	30.37	30.23	30.10	30.16
Basic Stage	87.72	88.07	87.89	89.56	90.10	89.92	90.58	91.31	90.94
Secondary Stage	40.24	38.74	39.52	40.02	40.28	40.15	40.24	44.04	42.09

Source: "Education-Current Main Indicators", PCBS, Palestine

Table (1.6): Distribution of Classes by Stage and Gender 1994/1995-1998/1999

Year	Basic				Secondary			
	Male	Female	Co-education	Total	Male	Female	Co-Education	Total
1994/1995	6326	5832	3278	15436	739	587	176	1502
1995/1996	6624	6227	3485	16336	709	663	207	1669
1996/1997	7163	6728	3727	17618	885	771	211	1867
1997/1998	7669	7369	3833	18871	954	868	225	2047
1998/1999	8041	7765	4281	20087	995	954	233	2182

Source: "Education-Current Main Indicators", PCBS, Palestine

- Poverty Indicators

Table (1.7): Poverty Rates by Number of Children, 1998

Number of Children	Poverty	Poverty Gap	Deep Poverty
0	20.0	6.1	13.3
1-2	12.9	2.9	6.6
3-4	16.2	4.2	9.1
5-6	23.9	6.8	15.7
7-8	30.5	7.6	19.0
9+	33.6	9.7	23.4
Total	20.3	5.5	12.5

Source: "Poverty in Palestine January-December 1998", Ministry of Health, Palestine

Table (1.8): Poverty Rates by the Head of the Household's Level of Education

Household's Level of Education	Poverty	Poverty Gap	Deep Poverty
Less than elementary	27.8	7.7	17.2
Elementary	20.5	5.6	13.0
Preparatory	20.1	5.5	12.9
Secondary	16.2	4.3	10.0
Diploma	7.4	1.6	4.6
Bachelor or more	7.3	1.1	2.6
Total	20.3	5.5	12.5

Source: "Poverty in Palestine January-December 1998", Ministry of Health, Palestine

Annex II Economic performance until 2000

• Aggregate Indicators

Table (II.1): Palestine:^a key economic indicators, 1994 and 1996-1998

Indicator/Units	1994	1996	1997	1998	PREL. 1999
<i>National accounts</i>					
Gross domestic product - GDP (million US\$)	2 624	3 413	4 173	4 484	4 570
Gross national income - GNI (million US\$)	3 096	3 864	4 906	5 475	5 196
GDP per capita (US\$)	1 274	1 497	1 500	1 548	1 614
GNI per capita (US\$)	1 503	1 695	1 763	1 890	1 782
<i>Expenditure on GDP</i>					
Private consumption, including non-profit institutions (percentage of GDP)	105	106	100	98	-
Government consumption (percentage of GDP)	13	20	23	24	-
Private investment, including changes in inventories (percentage of GDP)	23	26	33	29	28
Government investment (percentage of GDP)	6	7	7	6	5
Goods and services trade balance (percentage of GDP)	-51	-59	-65	-60	-
<i>Balance of payments</i>					
Goods and services balance (million US\$)	-977	-1 856	-2 074	-2 439	-2658
Net factor income - NFI (million US\$)	575	469	606	828	914
Net current transfers - NTR (million US\$)	559	594	385	354	385
Current account balance: goods, services, NFI, NTR (million US\$)	157	-793	-1 083	-1 256	-1358
Donor finance (million US\$)	665	735	716	549	594
Net capital movements, errors, omissions and statistical discrepancies	822	-58	-367	-707	-
Population (thousands)	2 060	2 279	2 782	2 896	3 019
Unemployment (percentage of labour force)	15	24	20	15	11.8
Employment in Israel (percentage of total employed)	18	14	17	21	23.0

Sources: National accounts, population and employment: (a) Palestinian Central Bureau of Statistics (PCBS) and (b) Palestine Economic Policy Research Institute (MAI), MAI Economic Monitor, No. 6, April 2000.

• External Trade

Table (II.2): Value of Registered Palestinian Merchandise Imports by Main Types, 1998

In \$ thousands

Main Types	Absolute Values	Shares
Raw Materials	697,209	29%
Agricultural Products	228,883	10%
Processed Food	237,750	10%
Manufactured Consumption Goods	344,238	15%
Manufactured Investment Goods	865,024	36%
Total Imports	2,373,104	100%

Source: UNSCO estimates based on PCBS, Foreign Trade Statistics - 1998, in

**Table (II.3): Main Trade Partners of the Palestine
by Total Value of Registered Merchandise Transactions, 1998**

In \$ thousands

Country	Total Value of Trade Transactions	Share of total Trade Transactions
Israel	2,214,638	79.98%
Jordan	66,124	2.39%
Italy	57,812	2.09%
Turkey	48,399	1.75%
Spain	36,422	1.32%
Germany	34,126	1.23%
China	33,789	1.22%
United States	33,430	1.21%
Egypt	27,728	1.00%
United Kingdom	25,357	0.92%
Main Partners' Trade	2,577,825	93.10%
Total Trade	2,768,948	100%

Source: PCBS, "Foreign Trade Statistics, 1998 Main Results"

Table (II.4): Regional Structure of External Trade

Subject	1990	1991	1992	1993	1994	1995	1996	1997	1998
Imports <i>\$million</i>	843	1139	1260	1173	1075	1690	2017	2164	2375
Israel (%)	84.7	85.7	87.7	86.5	85.6	90.0	86.4	83.3	69
Jordan (%)	1.1	0.8	0.8	0.8	0.6	0.5	0.4	1.4	1.4
Egypt (%)	-	-	0.1	0.1	0.1	0.3	0.9	1.2	0.9
ROW (%)	14.3	13.5	11.4	12.6	13.7	9.2	12.3	14.1	28.7
Exports <i>\$million</i>	231	247	292	234	243	326	340	381	395
Israel (%)	78.4	76.9	85.2	76	84.3	93.3	93.8	93.9	94.8
Jordan (%)	13.9	15.6	10	22.4	12.8	4.5	5.3	4.9	4.9
Egypt (%)	-	-	-	0.1	-	0.2	0.3	-	-
ROW (%)	7.7	7.5	4.8	1.5	2.9	1.4	0.6	1.2	0.3

Sources: For 1990-1991, Axel J. Halbach, "New potentials for 1992-1995, UNCTAD secretariat estimates (see UNCTAD/GDS/SEU/2); for 1996-1998, PCBS-foreign trade statistics.

Table (II.5): Fiscal Operations of the Palestinian Authority, 1996 - 2000

	1997	1998	Prel. 1999	Projection 2000
Revenue	2,848	3,280	4,093	4,135
Domestic	1,136	1,220	1,508	
Tax	728	852	1,037	
Nontax	408	368	472	
Revenue clearance	1,712	2,060	2,584	
Current expenditure (on a commitment basis)	2,994	3,196	3,902	4,232
Wage bill	1,622	1,774	2,147	2,615
Nonwage	1,352	1,412	1,732	1,617
Foreign financed	20	10	23	
Recurrent balance (commitment basis)	-146	83	191	-97
PA financed capital expenditure	0	0	0	50
Recurrent balance plus PA financed Capital expenditure (commitment basis)	-146	83	191	-147
Change in the stock of arrears	18	288	42	-348
Recurrent balance plus PA financed Capital expenditure (cash basis)	-128	372	233	-495
Foreign financed capital expenditure	907	896	874	941
Overall balance (cash basis)	-1,033	-525	-641	-1,436
Financing	1,033	525	641	1,436
Banking system, net	-183	213	-33	0
Foreign financing	1,043	907	897	941
Net revenue diversion	---	-329	-325	-105
Excise revenues diverted	548	598	616	152
Excise revenue transferred back	---	269	290	47
Other non-bank financing	---	---	---	---
Residual financing gap	---	-266	102	601
<i>Memorandum items</i>				
Stock of arrears (excl. arrears on VAT refunds)	18	306	348	0
PA employment	83,114	92,367	103,554	112,511
Current expenditure, cash basis	2,957	2,898	3,836	4,580
Nonwage, current expenditure, cash basis	1,335	1,124	1,690	1,965

Annex III : Donor Assistance to Palestine

- Countries and International Organizations Involved in Assisting the PA

International Community

Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, Egypt, European Commission, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Kuwait, Luxembourg, Morocco, Netherlands, Norway, Oman, Portugal, Qatar, Romania, Russia, Saudi Arabia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, United States of America.

The United Nations

CICP, ECOSOC, FAO, HABITAT (UNCHS), IAEA, ICAO, IFAD, ILO, IMO, ITC, ITU, OHCHR, UNCTAD, UNDCP, UNDP, UNEP, UNESCO, UNFPA, WFP, WHO, WIPO, UNICEF, UNIFEM, UNITAR, UNSCO, UNRWA, UNV

International Financial Institutions

Arab Fund for Economic and Social Development, European Investment Bank, World Bank group, International Financial Corporation, Multilateral Investment Guarantee Agency, International Monetary Fund.

Table (III.1): Breakdown of donations by Type for the Period 1994-June 2000

In US\$

Type of Donation	Total Commitments	Total Disbursements
Loans	817,937,000	454,696,000
Grants	3,783,075,000	2,614,949,000
Total	4,601,012,000	3,069,645,000

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

Table (III.2): Financial Assistance to the PA During the Period 1994-June 2000

Recipients	Total Pledges US\$	Total Commitments US\$	Total Disbursements US\$
	5,730,303	4,601,012	3,069,645
PNA		4,251,258	2,788,951
NGOs		349,754	280,694

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

Table (III.3): Distribution of Donations among Main Development Sectors for the Period 1994-June 2000

In US\$ 1000

Sector	Total Commitments	Total Disbursements	Total Disbursements as % of Commitments
Infrastructure	1,863	1,055	56.6
Productive	521	299	57.3
Social	1,167	858	73.5
Institution Building	1,026	797	77.6
Total	4.6 Billion	3,009 billion	

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

ENDNOTES

¹ Palestinian Academic Society for the Study of International Affairs (PASSIA), Yearbook, Jerusalem, 1996

² UNSCO, "Report on the Palestinian Economy with Special Report on Palestinian Merchandise Trade, Spring 2000", Gaza

³ United Nations Conference on Trade and Development, "Cooperation Between the Palestinian Authority, Egypt and Jordan on Trade-Related Services", (UNCTAD/GDS/SEU/3)

⁴ Ibid.

⁵ Palestinian Central bureau of Statistics (PCBS), "Foreign Trade Statistics, 1998: Main Results", Palestine.

⁶ UN GAOR (Agenda Item 7) 7, UN Doc. A/10203 (1975)

⁷ "Evaluation of European Community Assistance to the West Bank and Gaza Strip", January 1999

⁸ See Paris Protocol, Annex I, Articles IX and X.

⁹ United Nations Conference on Trade and Development, "Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges" (UNCTAD/GDS/SEU/1).

¹⁰ World Bank (1994) "The World Development Report: Infrastructure for Development". New York: Oxford University Press.

¹¹ The Palestinian National Authority (1995)

¹² "Poverty in the West Bank and Gaza", a report by the World bank, January 2001, Gaza.

¹³ See UNCTAD/GDS/SEU/3

¹⁴ "Economic and Social Conditions in the West Bank and Gaza Strip", a quarterly report by UNSCO, Spring 1998, Gaza.

¹⁵ However, these figures underestimated rates of unemployment in the Palestinian territory, owing to flaws in the chosen sample. UNCATD, "Review of labor and Employment in the West Bank and Gaza Strip", UNCTAD/EDEC/SEU/9

¹⁶ This section draws on the following: "Aid Effectiveness in the West bank and Gaza", a report by the World Bank, June 2000; "Evaluation of European Community Assistance to the west bank and Gaza strip", a report by the European commission, January 1999; "Development Assistance to the West bank and Gaza: An overview", Palestinian Development Infonet (www.arts.mcgill.ca), March 1997.

¹⁷ AHLC includes of the United states of America, Russia, the European union, Japan, Canada, Saudi Arabia, and Norway, with the PA, Israel, Egypt, Jordan, Tunisia and the UN as associate members.

¹⁸ PCBS, "Direct Losses accrued induced on the Palestinian Economy by the Israeli Siege", December 2000.

¹⁹ UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza.

²⁰ UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza. According to the Palestinian Ministry of Labor, there was about 120,000 Palestinian worker in Israel on the eve of the crisis, earning a daily wage of \$27.50 per person. See PCHR, "Closure Update No.31", 8 January 2001.

²¹ UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza.

²² UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza

²³ See UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza and the World Bank Group, "The Impact of Prolonged Closure on Palestinian Poverty", Gaza 1 November 2000.

²⁴ "Poverty in the West Bank and Gaza Strip", a press release issued by the World Bank, 5 February 2001.

²⁵ See UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza and the World Bank Group, "The Impact of Prolonged Closure on Palestinian Poverty", Gaza 1 November 2000.

²⁶ "Crisis in Faith", Second Submission of the Palestinian Liberation Organization to the Sharm El-Sheikh Fact-Finding Committee, 30 December 2000.

²⁷ "Strengthening Palestinian Public Institutions", a report by the Council on Foreign Relations, 28 June 1999.

²⁸ These projects were proposed by representatives of the private sector in the region during the Middle-East and North Africa (MENA), held between 1994-1997 under the sponsorship of the World Economic Forum. The conferences were held for the purpose of enhancing the peace process through the promotion of regional economic co-operation with Israel as a main partner. During these conferences, the transport sector enjoyed far more activity than other sectors in terms of the number of projects proposed, investments and the rate of implementation. "Monitoring and Assessment of the Middle-East and North Africa (MENA) Economic Conferences: Industry and Transport", A report by the Economic and Social Commission for Western Asia, New York: the United Nations, 2000.